PILLAR III

# Public disclosures

FOR THE YEAR ENDED 30 JUNE 2022

Discovery Bank Limited and
Discovery Bank Holdings Limited Group

# **Executive** summary

Discovery Bank is an innovative, disruptive, and fully retail-funded behavioural bank built on making people financially healthier by encouraging our clients to make positive decisions that enhance their financial wellness. Our unique shared-value product offering, built using advanced analytics and technology, enables us to deliver exceptional service and create long-term value to clients and shareholders.

## Changing the world for the better

As a testament to our success in creating value for both our clients and shareholders, Discovery Bank was recently ranked in the top 5[1] on Fortune Magazine's 2022 *Change the World* list[2] for our shared-value banking model, which helps clients adopt and exhibit better financial behaviours while rewarding them for it.

We believe that this recognition validates our ongoing focus on making people healthier in all aspects of life, in line with our core purpose, and positions us alongside other leading companies on a global stage.

Discovery Bank's growth and success is based on the same tenets as the shared-value insurance model of our Group, namely focusing on a few key behaviours that drive most of the risk, improving these behaviours to the benefit of both clients and company, and sharing the value created – driving further positive behaviour. This results in a banking model that is better for clients, for the Bank, and for society. Data shows that Discovery Bank clients on higher Vitality Money statuses are 96% less likely to be in arrears, have deposits more than seven times the average, and are three times more likely to engage, regardless of income level.

## Managing risk

The past financial year has seen much global uncertainty created by the Russia-Ukraine conflict as well as domestic challenges with continual loadshedding, unrest, inflationary shocks, and high unemployment levels. Aside from all the social and economic challenges, the Bank's strategy remains on track and the delivery of financial metrics remains forefront of mind and progress is pleasing.

In terms of risk, non-financial risks are closely monitored, particularly in relation to operational resilience, information security and cyber capability and oversight of third-party service providers. Discovery Bank ensures that all controls are appropriate, adequate, and effective in ensuring the Bank remains resilient and within its risk appetite as evidenced in the key performance indicators shown later in this report (02 Risk Management Philosophy).

In addition to our focus on measurable risks, Discovery also considers the effects of climate change, and focuses on how the company can manage climate risk within the Bank. The exposure for Discovery Bank is limited.

Discovery Bank has reviewed the Basel principles for the effective management and supervision of climate-related financial risks. Through this review, the Bank developed a framework from which to address both physical and transitional risk within the Enterprise Risk Management (ERM) landscape. An activity workplan has been put together to be delivered over the coming months to address the Basel Principles, as Discovery Bank determines each of them to be relevant, given the size, nature, scale, and complexity of its operations. Discovery Bank is confident that execution of the proposed activity workplan will place the business in good stead in preparation for the increased focus expected from the Prudential Authority in 2023.

In line with our prudent risk and governance processes, the quantitative tables were based on audited financials and audited regulatory reporting returns, formally signed off by the Discovery Bank Risk and Capital Management Committee.

*1 https://fortune.com/change-the-world/*
*2 Evaluation pillars include measurable social impact, business results, and degree of innovation.*

Discovery Bank

# Discovery Bank's financial performance

2022 has been an important year for Discovery Bank. It has been a year in which the growth and acceleration of the business have been demonstrable. Some notable progress made during the past year includes[3]:

Increasing new business traction, which has seen our daily new business acquisition increase from less than 500 new clients per day a year ago to over 800 per day at the year's end. Now, this is accelerating toward 1,000 new clients per day. We increased the client base by 40% to over 470,000 clients and 1m accounts, the deposit book by 30% to R10.6bn, and advances by 14% to R4.4bn.

Aside from the strong growth, there has been a continued focus on the quality of the business, which has simultaneously improved as we have grown. This is reflected in the exceptional credit loss ratio of 1.52%[4], which is significantly below the market and shows not only the quality of our client base but also the effectiveness of the credit risk and operations teams in managing the business through a complex period.

Strong revenue growth to over R1.5bn on an annualised basis. While we are a digital bank, we offer a wide range of high-value, sophisticated products to our clients and are expanding our primary bank relationships with them, which drives high engagement, utilisation, and, ultimately, revenue. The revenue per client reflects this, and our total monthly revenue is now 45% higher than a year ago.

We are demonstrating a true start-up mindset with the ability to scale product, clients and transaction volumes while containing costs. The combination of revenues and expenses led to an improved operating result as we remain focused on driving ourselves toward the breakeven point and continued robust growth.

The product delivery in areas such as travel, payments, forex, and others, create real differentiation and growth, with our shared-value banking model and Vitality integration playing out better than expected to deliver even greater value to our clients, the bank and society.

Discovery Bank is becoming increasingly entrenched as Discovery SA's composite-maker by providing the payment rails, digital entry points and advanced digital functionality for the rest of the Discovery Group.

*3 Results communications – Discovery Bank CEO*

*4 Excluding overlays*

## **Discovery Bank's** financial performance / CONTINUED

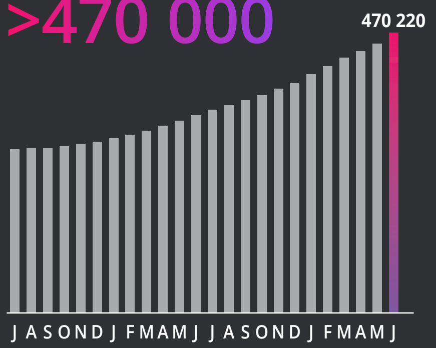
Discovery Bank's operating loss for the financial year was R990m, 10% lower than the previous financial year. We continue to expand our current client base, with 470,220 clients (331,000 in the prior period) and 1,023,790 accounts (versus 649,000 in June 2021), which represents a significant milestone. We have also continued to attract high-quality clients, resulting in high levels of average non-interest revenue (NIR) and a low credit loss ratio of 1.52%[6].

The period under review (the full year ending 30 June 2022) was marked by two considerable developments: The first was moving beyond the emergency phase of the COVID-19 pandemic, with conditions in most markets normalising, and the second was significant geopolitical and macroeconomic volatility, driven by a combination of the war in Ukraine and severe supply side constraints. This resulted in higher inflation, increased interest rates as well as currency and market volatility.

Despite these developments, we remained resilient in the face of macro challenges and delivered a strong operating performance.

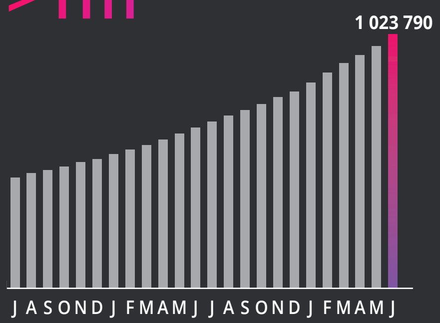
### Total clients

**>470 000**



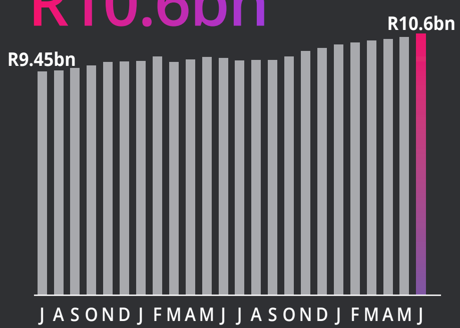

### Total accounts

**>1m**



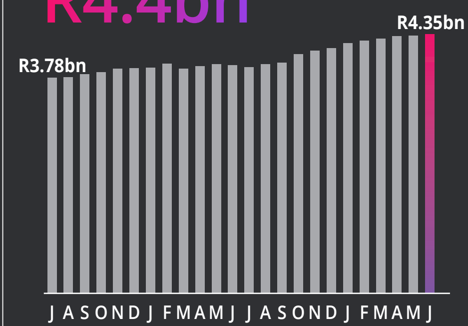

### Retail deposits

**R10.6bn**



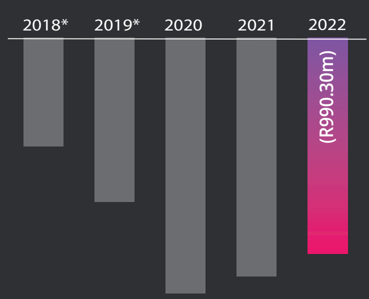

### Advances

**R4.4bn**




### Operating result[5]

**(R990m)**




* *Includes capital development costs during build phase*

5 *FY 22 Annual results_Bank*
6 *Discovery Group Audited Financial Results – Booklet June 2022*

# Contents

Discovery Bank

# Contents / CONTINUED

# 01

# **Strategy** and business model

# **Strategy** and business model

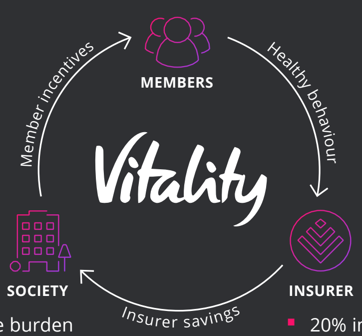
Discovery Bank represents a confluence of technology, social responsibility and a deep understanding of the nature of behavioural risk, underpinned by a proven shared-value business model. At the core of Discovery's business model is the utilisation of incentives and rewards, backed by advanced analytics and technology, to encourage clients to make positive decisions that enhance their financial wellness. This business model helps clients improve the quality of their lives while also generating sustainable long-term revenues for Discovery.

## WHY

**Make people healthier and enhance and protect their lives**

## HOW

Improved wealth, better value through improved price and benefits




**SOCIETY**

- Reduced healthcare burden
- Improved productivity
- Healthier society

**INSURER**

- 20% improved Life claims
- 60% lower motor loss ratio
- 96% lower arrears rates
- ±60% lower healthcare costs

## WHAT

- Life insurance
- Health insurance
- Short-term insurance
- Long-term savings
- Banking

The strategic objectives are fully aligned to business targets, thus we are able to measure our success in achieving set objectives. Our ambition remains:

**Discovery Bank** aims to be the **best bank in South Africa** and **globally recognised** for its **Shared-value Banking model**.

Through Discovery Bank's Shared-Value model, clients will exhibit better financial behaviours, which will demonstrably allow for **better financial outcomes** as a result of their **engagement with the Vitality Money programme**. They have ability to monetise their financial and other healthy behaviour improvements through their **personalised rewards stack**. The model will drive **rapid client growth, primary account utilisation, higher deposits, and lower credit risk**, resulting in superior value for clients, Discovery Bank and society.

Discovery Bank will earn the **trust, support and loyalty of clients** through **brilliant products**, an exceptional **full-service** offering and **intuitive client journeys**, which will be coupled with robust security features and underpinned by the unique application of **world-class digital and data capabilities**.

Discovery Bank will serve as the **foundational asset to drive integration for Discovery's South African composite** by creating an **ecosystem** through which every client has a Discovery Bank account to access their **full suite of Discovery products, financial services, and other partners, resulting in the highest levels of client engagement, persistency and long-term value.**


● new innovations

**Full-service offering**

- Transaction accounts and credit cards
- Demand, tax-free, notice & fixed deposit savings accounts
- Foreign currency accounts
- Discovery Account provides ubiquitous platform for integration

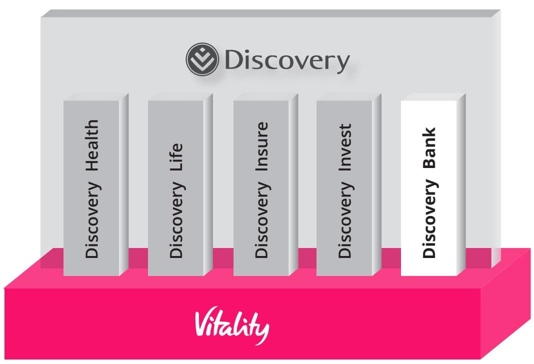
**Shared-value banking model**

- Shared-value rewards currency
- Dynamic interest rates
- Dynamic, deep discounts
- End-to-end travel experience with Vitality Travel

**Digital capabilities**

- Live Assist
- Smart Notifications
- Integrated payments
- Onboarding in <5 minutes

As shown in our full-service offering, Discovery Bank's capabilities are built to be best-in-class, with new innovations being launched throughout 2022.

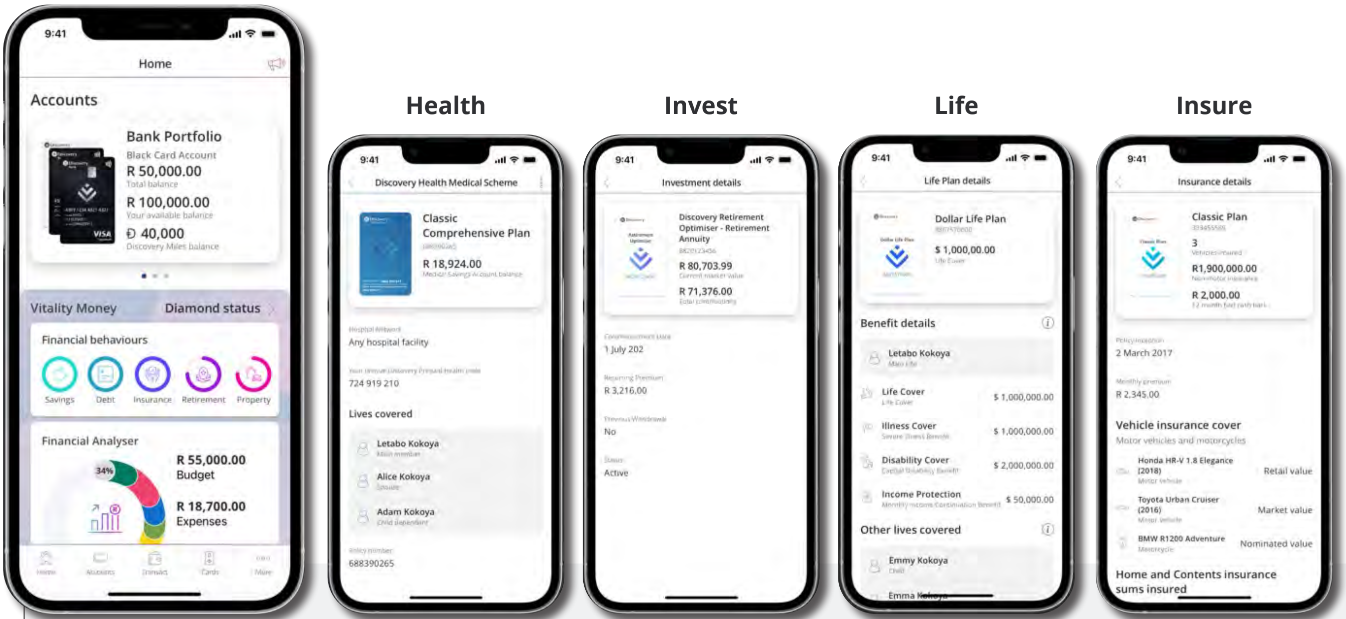



Discovery Bank provides the operating system for Discovery's SA Composite strategy. Discovery Health, Life, Insure, Invest and Vitality leverage off the Discovery Bank's infrastructure to serve its respected clients better and this is also Discovery Bank's strategy to form part of the wider Group.

Through the Discovery Bank app, clients now have a single view and a consistent product architecture enabled through unique digital capabilities that allows them access to their full Discovery portfolio (Life, Insure, Invest and Health)[7].

7 *Audited Financial Results Presentation – https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2022/results-final-fy-2022.pdf*

## Full Discovery portfolio now live in the Discovery Bank app




Discovery has identified three major trends that impact financial services and banking, resulting in clients reassessing the status quo and reconsidering their relationships with their financial services providers more frequently.

**1**
**Nature of risk**

Traditional banks segment and price clients based on their socio-economic status. However, the nature of risk in banking is as much behavioural as it is socio-economic. This results in clients who manage their money well often paying more to borrow purely based on their socioeconomic segment and subsidising riskier clients.

**2**
**Technology**

Banking has evolved towards digital and contactless onboarding and payment solutions, making it easier for clients to open additional accounts, transact in real time, pay through Apple, Samsung and Google accounts, and invest in forex (FX).

**3**
**Social responsibility**

Clients are demanding that the companies they do business and interact with, including banks, do business with a focus on societal issues as much as profits. Based on our shared-value model, we use our unique approach to deepen social value. At Discovery Bank in particular, we apply dynamic interest rates to boost savings and lower interest on credit based on a client's risk profile and their success in making smart financial choices.

**Our shared-value banking model considers individual financial behaviours to understand how financially healthy clients are. Clients get rewarded for managing their money well with:**

- Lower interest rates on borrowings than what would typically apply based on their socio-economic status. Clients can reduce their rates across income segments by managing their money well.
- Higher interest rates on their savings. Clients who manage their money well typically save more over longer periods. Through its shared-value model, Discovery Bank rewards clients with demand and short-term deposits with higher interest rates based on how well they manage their money.
- Better behavioural alignment and engagement. Engaged clients can earn multiples of their monthly fees in rewards by using their accounts and managing their money well.

The impact of these factors is a banking model that is better for clients and society.

Discovery Bank

# The intersection of **business, purpose and social good**

There has been a growing need and demand for businesses to have a social purpose that goes beyond that of maximising profitability, largely to the exclusion of other factors and stakeholders. This has contributed to a change in the nature of capitalism and a move away from a narrow shareholder focus toward a more holistic emphasis on stakeholder value with the understanding that businesses that are aligned with their clients and societies will be more sustainable and profitable in the long term.

| **PHILANTHROPY** | **CSR** | **ESG** | **SHARED VALUE** |
|---|---|---|---|
| "It's not a problem" | "It is a problem" | "Let's solve the problem" | "It's an opportunity" |
| ▪ Let's **ignore or understate** the problem<br>▪ Let's **minimise our responsibility**<br>▪ Philanthropy is about personal value | ▪ Let's minimise the problem and **throw some money** at it to show we're contributing<br>▪ Managing **corporate reputation** | ▪ We need to **add costs to fix the problem** or reduce risks<br>▪ We need to report transparently on our results<br>▪ We can use our core business capabilities to find solutions | ▪ We **can lower costs**, grow revenues or differentiate our value proposition by **addressing social** problems<br>▪ Even social problems that we don't usually affect, present opportunities |

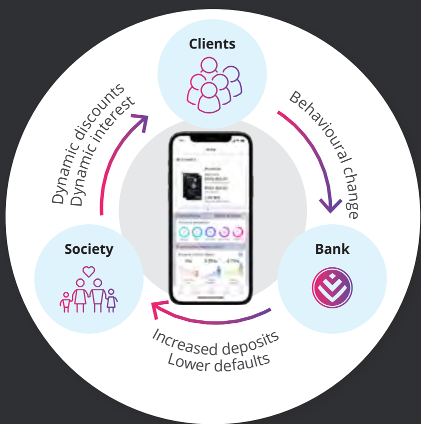
Source: Michael E Porter, Mark Kramer. Creating shared value, *Harvard Business Review*, January–February 2011.

The intersection of business, purpose and social good can take many forms. Traditionally, this has been concentrated in corporate social responsibility (CSR) activities, which operate outside companies' core strategies, leading to criticism for relegating social issues to the fringe. Increasingly, the investment in and societal impact of a business also considers environmental, social and governance (ESG) criteria, which, while necessary, are often treated as a tick-box exercise to manage reputational and regulatory risk. Both these paradigms demonstrate that models that rely on compliance are often lacking in foresight. In contrast, a model built on shared value enables companies to make the transformative link between strategy, higher purpose, and economic value. Shared value, which integrates social impact with core strategy, resonates with the business community and civil society, demonstrating the power of connecting social progress to a profitable, scalable business model.

# **Shared value** in banking

South Africans are big borrowers and poor savers. A combination of habits like reliance on credit and a disinclination for saving leaves people significantly exposed to financial crises in both the short and long term, putting us in a position that's financially precarious, both individually and as a society. Discovery Bank takes into account our clients' behaviours. We know that incentivising people to make better financial decisions generates higher savings levels, lower risk and increased wealth for society. Through Vitality Money, Discovery is helping clients understand and practise five key financial behaviours correctly:[8]

- SPEND LESS THAN YOU EARN
- INSURE FOR ADVERSE EVENTS
- SAVE REGULARLY
- PAY OFF YOUR PROPERTY
- INVEST FOR THE LONG TERM




Discovery Bank uses these behaviours to measure a client's financial health based on behaviour and not income level, and award them a Vitality Money status – Blue, Bronze, Silver, Gold or Diamond. A higher Vitality Money status means clients manage their money well and have a lower risk of credit defaults. This is our Shared-value Banking model in action – through effective interest rates and rewards incentivising good behaviour, clients manage their money well, and we share the value with them. Discovery Bank clients have access to a range of tools to help them manage their money better and become financially stronger. These include a retirement planner, a financial education video series and access to discounted advanced education courses, debt tools and personalised goals – all of which help our clients make smarter financial choices. We also introduced an AI-powered financial and budget analysis tool, the Vitality Money Financial Analyser, to help our clients budget smarter and manage monthly spend. We apply dynamic interest rates to savings and interest on credit based on a client's risk profile and their success in making smart financial choices. Rewards can be increased by linking to Vitality and integrating across Discovery's product universe.

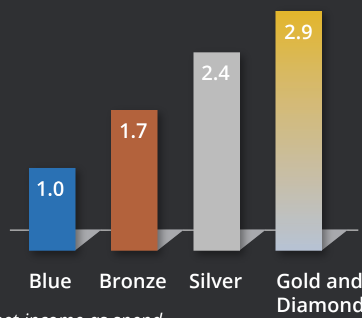
8 *https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2022/discovery-sustainability-report-2022.pdf*

## Data shows the positive behaviour change achieved through Vitality Money[9].

### PRIMARY ACCOUNT UTILISATION

3x
higher primary/ highly active users
Gold & Diamond vs Blue

% primary/highly active users

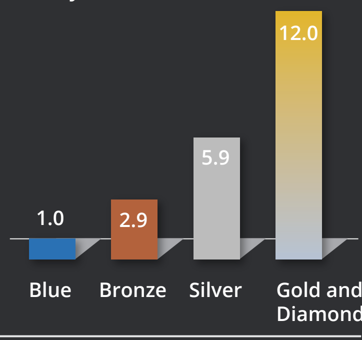



*Primary/highly active users: ≥15% of net income as spend*

### REWARDS GENERATION AND MONETISATION

12x
higher rewards earned
Gold & Diamond vs Blue Vitality Money status

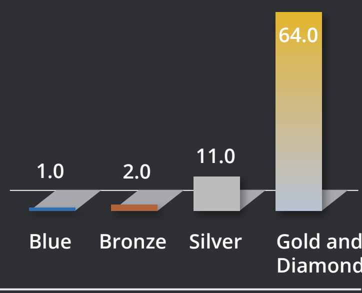
Vitality Money, Vitality Health and Vitality Drive rewards earned




### SAVINGS

7x
higher average deposits
Gold & Diamond Vitality Money status vs Book average

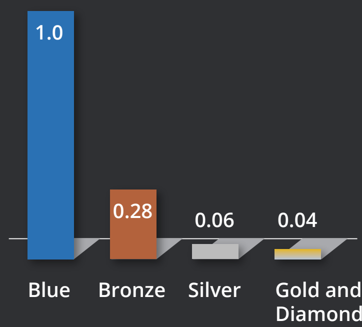
Average deposits




### ARREARS

96%
Lower arrears rate
Gold & Diamond vs Blue Vitality Money status

Arrears rate



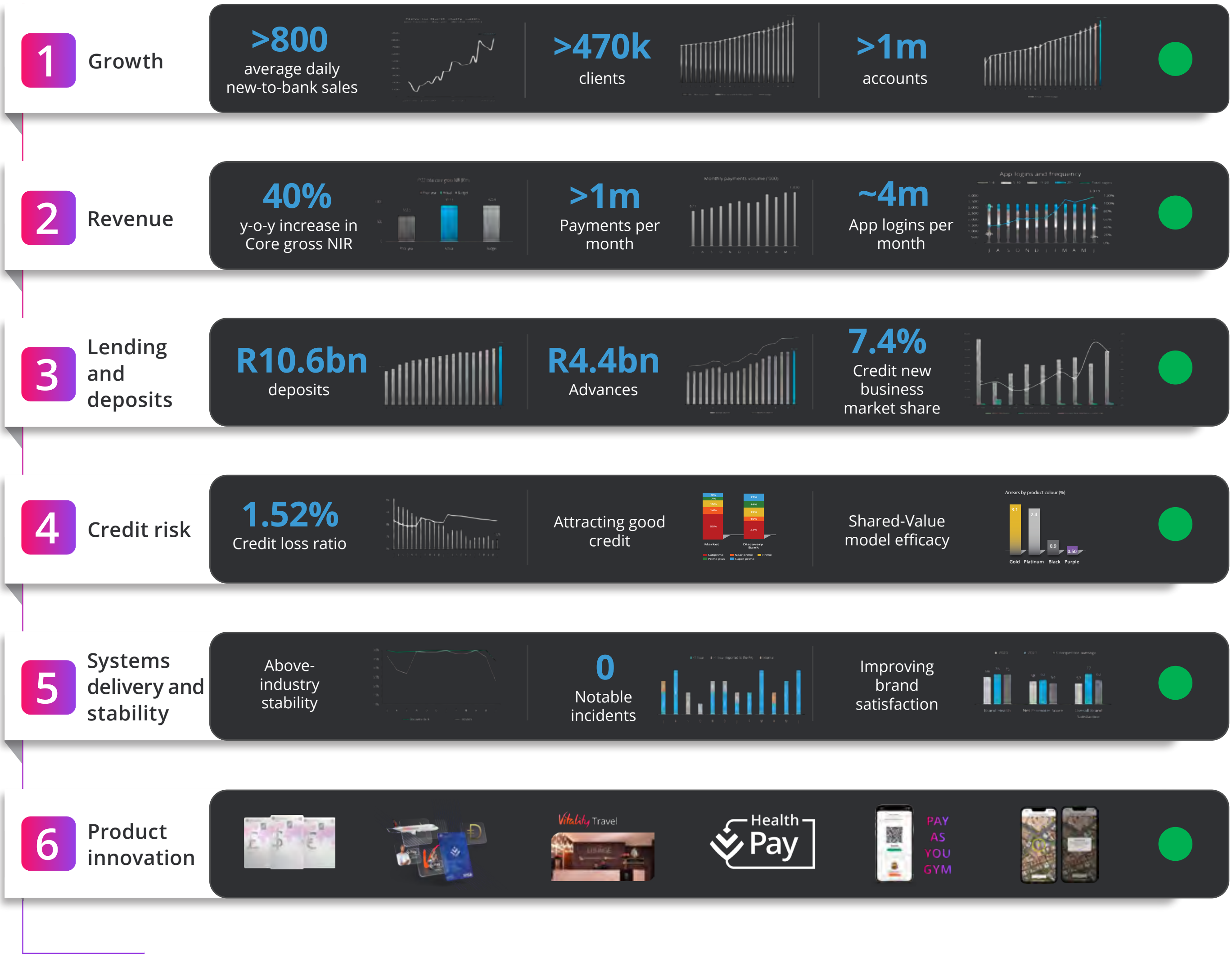

9 *Sustainability report – https://www.discovery.co.za/assets/discoverycoza/corporate/corporate-sustainability/2021/sustainability-report.pdf*

# A **full-service shared-value** bank

Discovery Bank's shared-value strategies to sustain growth and progress:

- Maintain strong service levels and operations to deliver excellent client experiences, high availability, and payment excellence
- Drive new business growth through marketing, operational, and distribution initiatives, while maintaining the optimal product mix
- Develop a full product suite, attract new segments and build platforms while entrenching Discovery Bank as Discovery South Africa's composite-maker
- Leverage the Discovery Bank's Shared-Value model to grow advances through high-quality lending and continue to attract deposits
- Increase NIR through increased utilisation and engagement, supported by robust data and machine-learning functionality
- Capitalise on growth and mitigate expenses to deliver attractive financial results, within an acceptable risk framework.

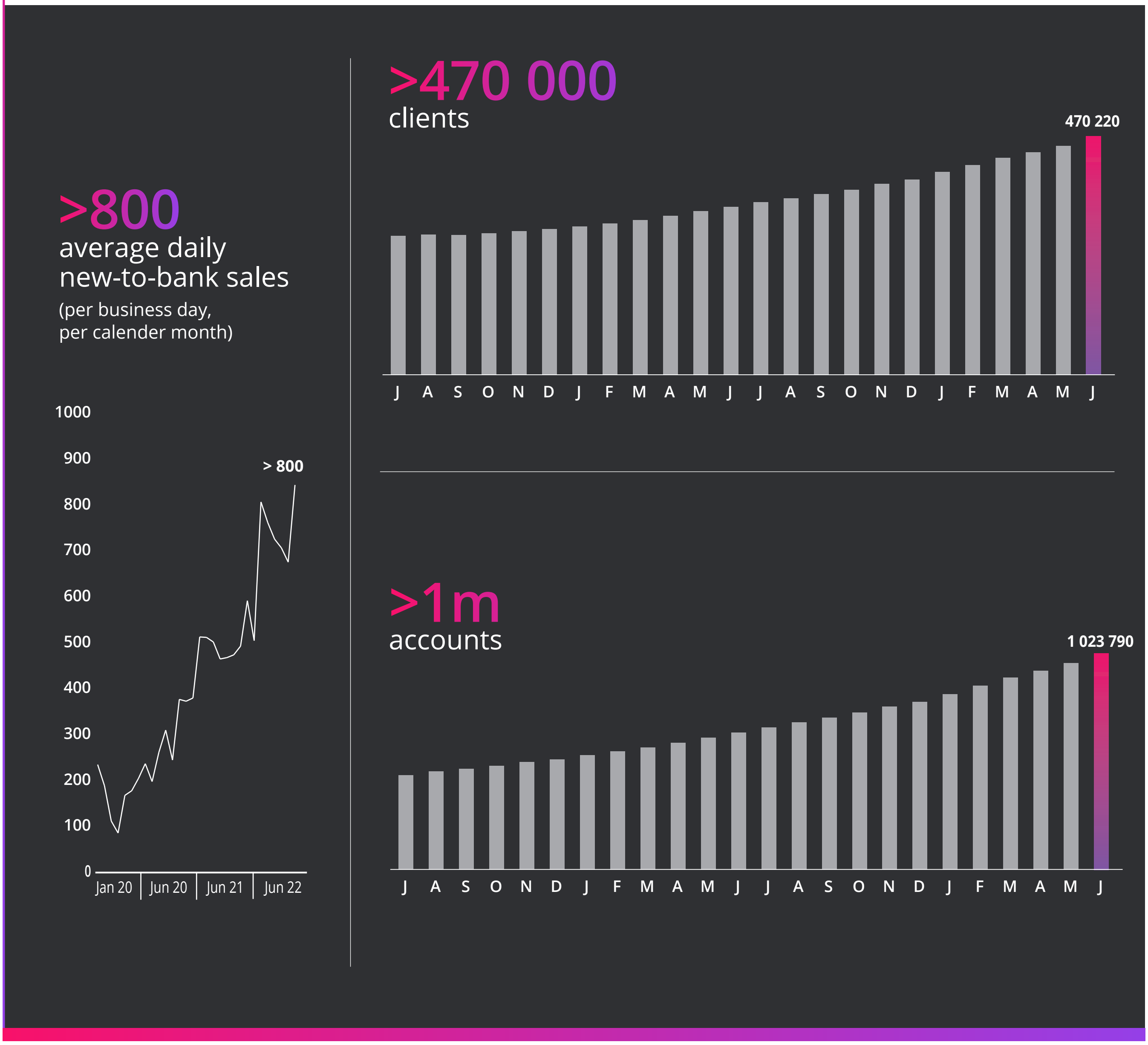
**Key performance measures[10]**




*10 FY22 Financial results.*

## 1 Rapid progress to 800 average daily sales with high-quality growth

Significant effort has been expended in driving business growth through the comprehensive rollout of additional sales channels and targeted marketing campaigns. During June 2022, daily sales exceeded 800 with a high-quality product mix, with the majority of this coming from new to Discovery Group clients. We grew to over 470,000 clients and over one million Discovery Bank accounts, both ahead of the projected budget. This growth is an indicator of remarkable progress and reflects our efforts to keep innovating and to set the highest standards in product development, service, while putting the client at the centre of our services.



## 2 Overall engagement

Strong growth in the utilisation of the our transactional capabilities, with monthly payment volume and values increasing monthly. NIR is still lagging behind budget due to strategic decisions to maintain the quality of advances while locking deposit growth in anticipation of the launch of additional credit products in the near future.

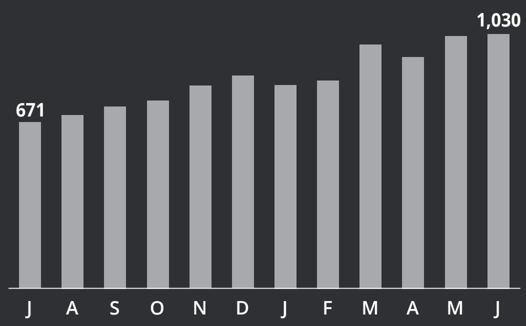
**40%**
y-o-y increase in Core gross NIR

**FY22 total core gross (R'm)**


*Core gross NIR excludes the overlimit fee provision charge, NIR expenses and client acquisition costs*

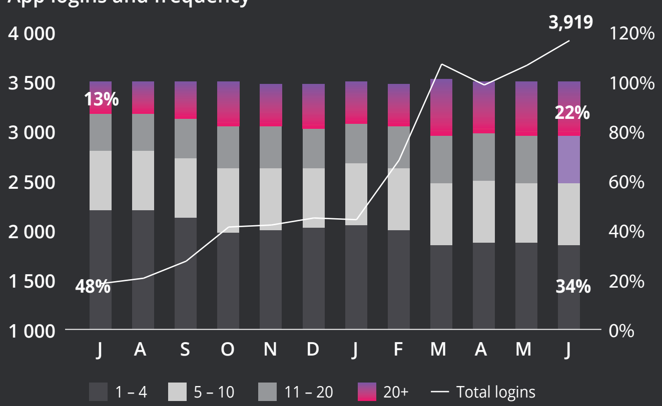
**>1m**
payments per month

**Monthly payments volume ('000)**




**~4m**
app logins per month

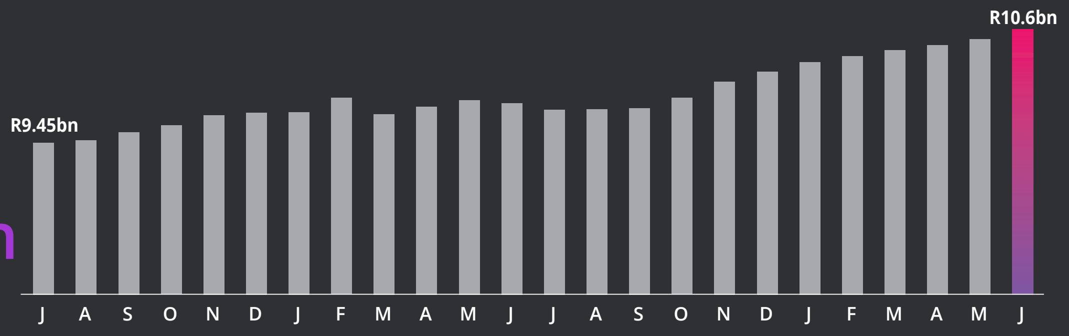
**App logins and frequency**



## 3 Deposits have continued their strong growth trajectory

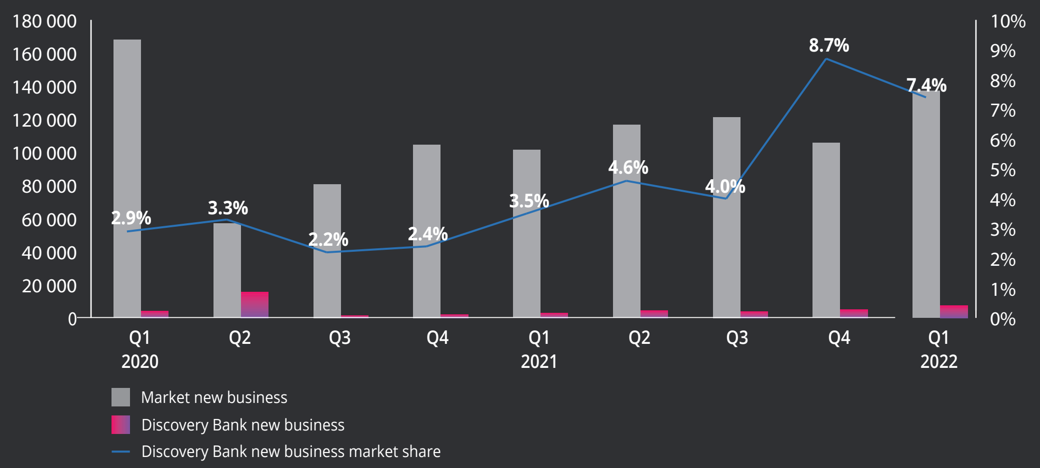
Discovery Bank continues to see steady growth in deposits as well a decline in cost of deposits due to a deliberate maturity profile and margin-enhancing strategy. The growth in advances is attributed to rise in credit applications and increasing market share. We continue to attract good credit risk clients, thus improving the credit quality of the book.

**R10.6bn** deposits




**R4.4bn** advances


**7.4%** Credit new business market share

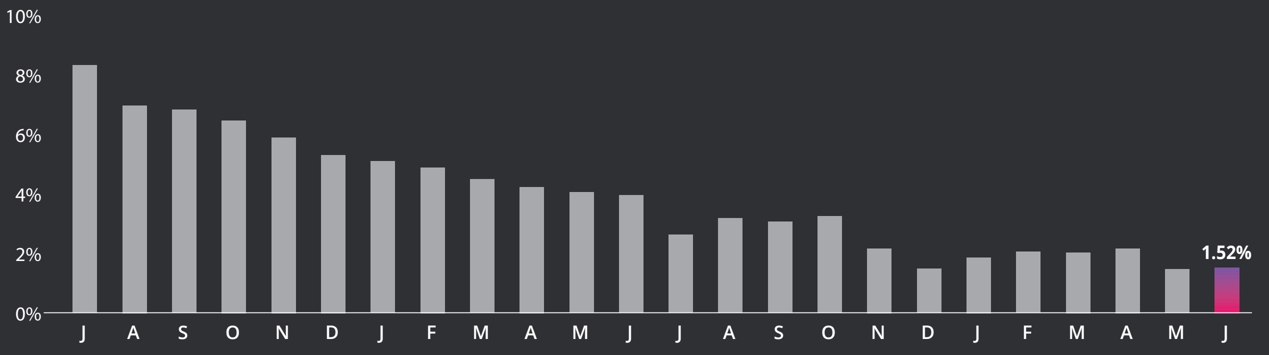


## 4 Declining credit loss ratios as a result of the quality of the book

Discovery Bank continues to see steady growth in deposits as well a decline in cost of deposits due to a deliberate maturity profile and margin-enhancing strategy. The growth in advances is attributed to rise in credit applications and increasing market share. We continue to attract good credit risk clients, thus improving the credit quality of the book.

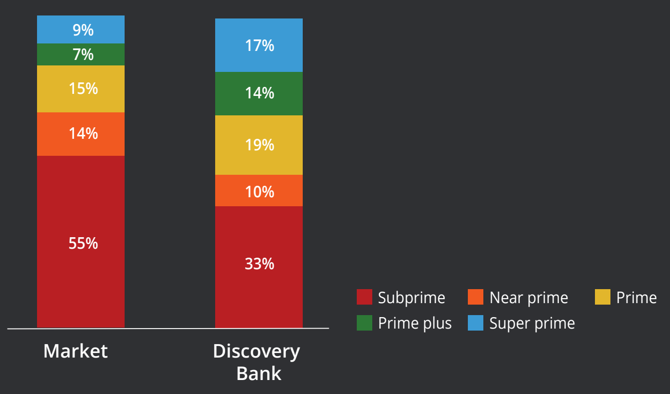
**1.52%**
Credit loss ratio

Credit loss ratio (excluding overlay)

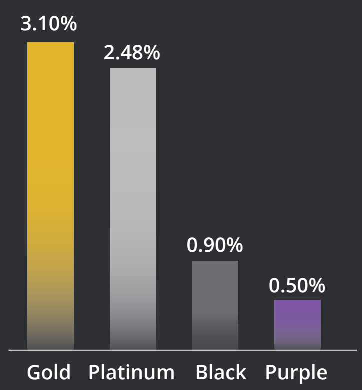



New business by risk tier by exposure*

* Mar YTD



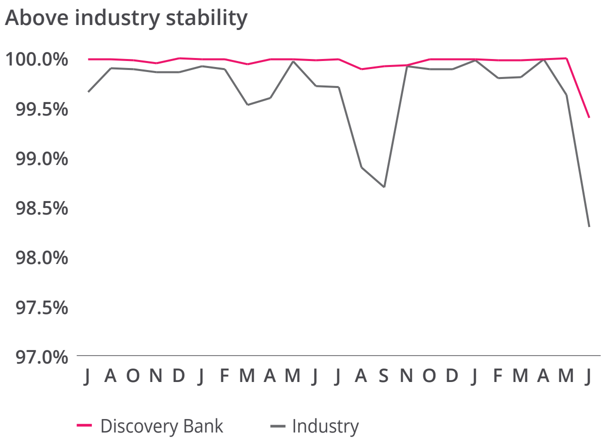

Arrears by product colour

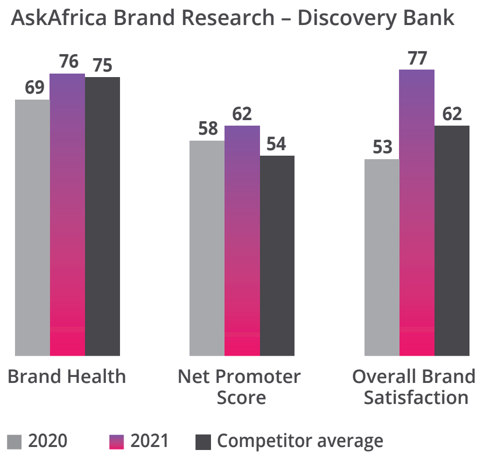



* *Source: TransUnion report, View 1: New Bookings Credit Card Market*

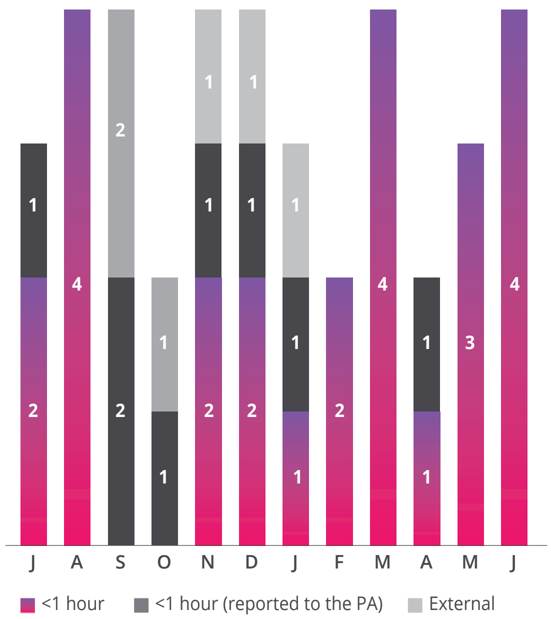
## 5 Resilient systems and payment stability

We have resilient systems and payment stability, with no notable interruptions or outages experienced in the last year. Any complaints remain closely monitored on all platforms (social media and brand applications).




**0** notable incidents

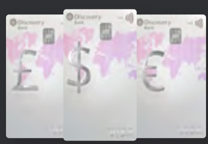



![Discovery Bank]

A **full-service shared-value** bank / CONTINUED

## 6 Continued product innovation

Discovery Bank launched their **foreign currency accounts** account earlier in the year. Clients can open an account in three easy steps, transact in real time, and manage foreign currency allowances in their app.

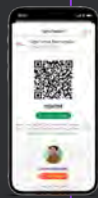


We introduced the **Discovery Bank Operating System** (DB.OS) that enables all products across the Discovery South Africa composite to operate on the Discovery Bank app.[11] This means that our clients can now access their full Discovery product portfolio on the Discovery Bank app as well as their key Vitality benefits.

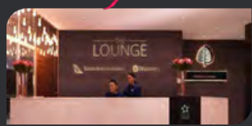
To support this strategy, we also announced our new **Discovery Account**, which is available to all Discovery clients at no monthly fee. This fully digital banking account gives clients a complete view of their Discovery products, with access to:

- The **Vitality Travel** booking platform and offers a minimum 10% saving on local and international flights, accommodation, and car hire.
- **Discovery Pay** for seamless, real-time Discovery Health and Vitality payments.
- A **Discovery Miles Account** to earn rewards across all their Discovery products and qualify for up to 15% off when spending Discovery Miles and up to 30% off on Miles Đ-Day.

**Vitality Pay as you Gym** is built on the Discovery Bank payment rails and gives Vitality members access to our health and fitness partners, Virgin Active and Planet Fitness, on a pay-as-you-gym basis for only R75 to R100 for a visit. This is a breakthrough in making exercise and state-of-the-art gym facilities accessible, and provides a platform to expand into other facilities.



Vitality Travel




Discovery has partnered with South African Airways (SAA) to give Discovery Bank Platinum, Black, and Purple Card holders access to **The Lounge,** a world-class airport lounge experience at OR Tambo International Airport, King Shaka International Airport, and at Cape Town International Airport. Exclusive access to The Lounge is in addition to the existing international and domestic airport lounge access benefits provided by LoungeKey. Plus:

- Clients can now enjoy **discounted flights on all domestic and regional flights** with partners including Airlink, FlySafair, LIFT, SAA and CemAir.
- The **Vitality Travel platform i**ncludes properties on Booking.com, so clients can book everything in one place, with the option of paying with Discovery Miles.
- Our iconic domestic airport **Priority Fast Track** is now also available at international arrivals at OR Tambo International Airport for our Purple Card holders.

We believe all these enhancements further entrench how Discovery Bank continues to provide cutting-edge banking and being market leaders in the industry.

*11 Milestone – 20 June 2022*

# 02

# **Risk management** philosophy

# Risk management philosophy

Risk management involves the process of identifying potential events relevant to Discovery Bank's objectives, measuring them in terms of impact and likelihood, monitoring the risks, and managing them by developing appropriate risk mitigation strategies.

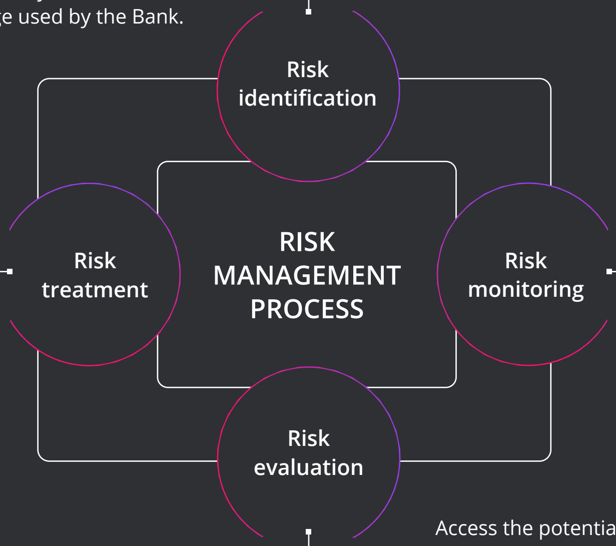
Discovery Bank defines risk as the possibility of an event materialising that can have a negative (or positive) impact on the Bank, and as such, encourages risk-based decision making.

**Risk management is a process that is:**

- Ongoing within Discovery Bank
- Put into effect by all of Discovery Bank's employees
- Applied across Discovery Bank and its various individual operations
- Designed to identify potential threats and opportunities affecting Discovery Bank
- Used to manage risks within the defined appetite and tolerance limits.

Identify across various products and processes within Discovery Bank and classify them in terms of common language used by the Bank.

Various measures adopted by Discovery Bank to mitigate and manage key risks. These are put in place to ensure that risk levels stay within acceptable tolerance levels.




Monitor changes in the risk profile over a period of time and provide a snapshot of key risks and the adequacy and effectiveness of the control environment.

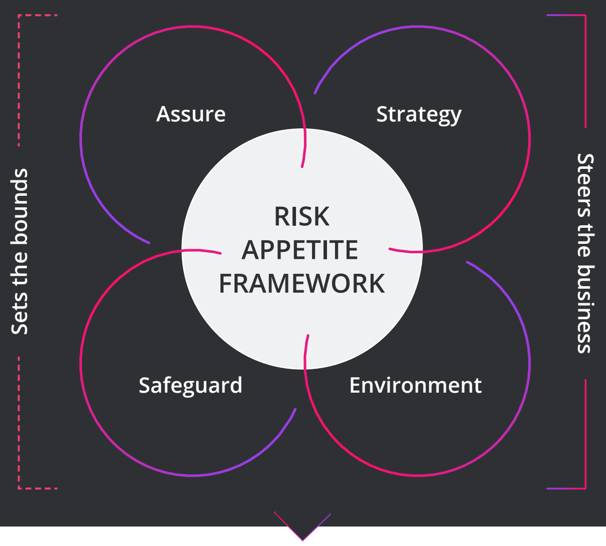
Access the potential likelihood and impact caused by a particular risk and the quality of the control environment in place to mitigate it.

For each significant risk type faced by Discovery Bank, a policy framework exists which is divided into policies, standards, and procedural documents. By identifying and proactively addressing these risks and opportunities, Discovery Bank can protect and create value for its stakeholders.

**Discovery Bank's risk universe includes the following key risk types:**

| | | |
|---|---|---|
| Strategic and business risk | Liquidity and funding risk | Model risk |
| Reputational risk | Market risk | Operational risk |
| Credit risk | Interest Rate Risk in the Banking Book | Regulatory risk |

Discovery Bank has identified and considered all risks currently within our environment to ensure risks beyond our risk appetite are not brought onto Discovery Bank's balance sheet or within its operating environment. The identified risks are embedded within Discovery Bank's risk environment and form part of the Bank's daily, weekly and monthly monitoring processes. Any potential breaches are flagged immediately, and remedial actions are agreed upon. All of these are managed through the risk appetite of the Bank.




Each step of the risk appetite is fundamental to the process of ensuring a measurable, executable and functional framework has been implemented for Discovery Bank. Each core risk appetite component is then developed by considering questions such as the following:

- What risks will we not accept?
- What risks are we willing to bear, and to what level?
- What resources are required to manage those risks?
- What are the risks we are exposed to, and what risks do we need to take?

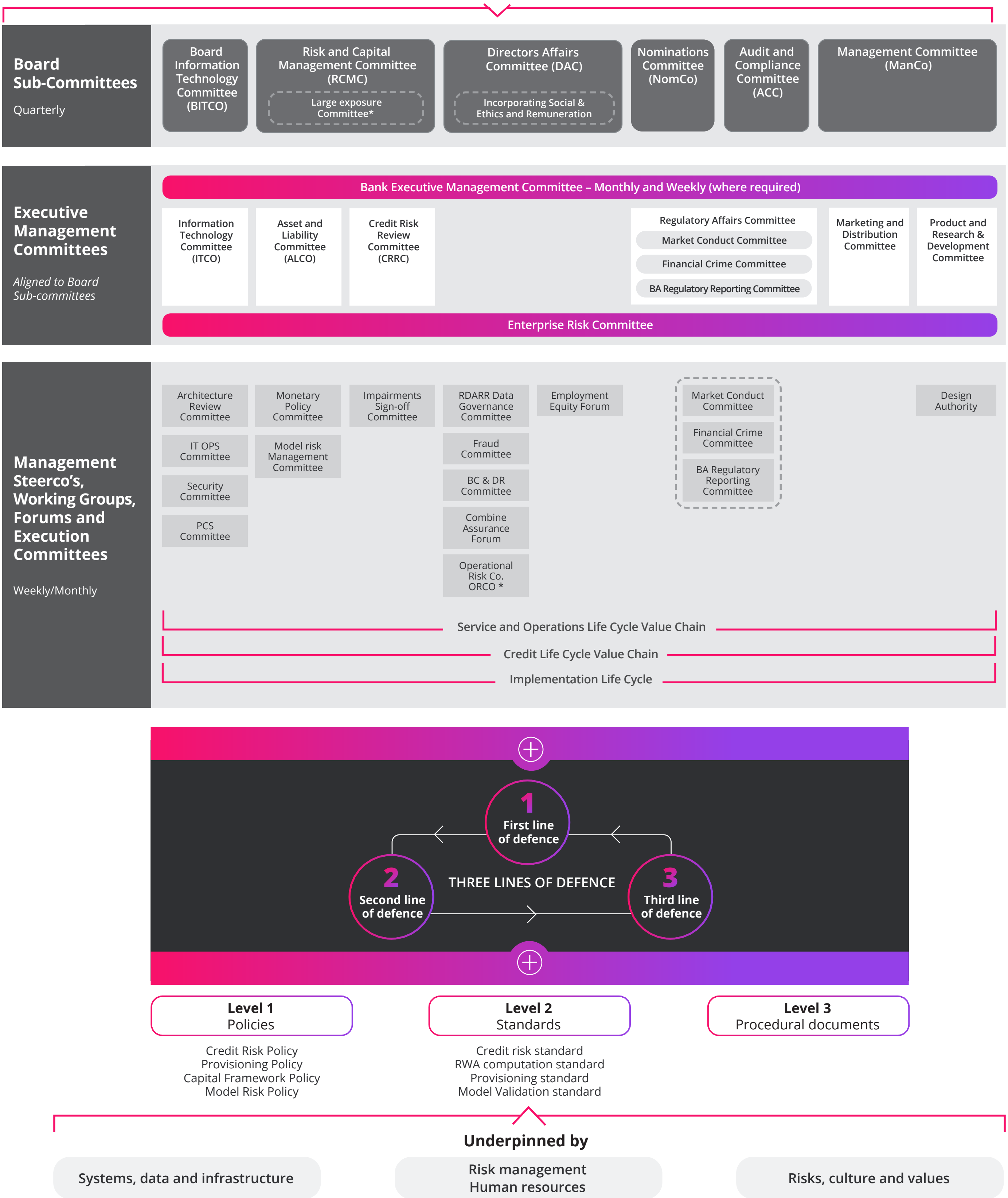
For 2021/2022 year, Discovery Bank executed its shared-value strategy and ensured the business targets and objectives in each risk area were met. This was managed by the Combined Assurance function.

## Three lines of defence model

Discovery Bank manages its risk using a three lines of defence model, as embedded in our governance framework. During 2022 further efforts were made to streamline and enhance the governance structure of the Bank.

### Governance Framework

**Discovery Bank/Discovery Bank Holdings (Quarterly)**



## Channels to communicate risks

The three lines of defence risk management model promotes transparency, accountability and consistency by clearly identifying and separating business management from governance and control structures.

### The three lines of defence model is used to communicate and manage risks:

1

Business units, through the EXCO committees, act as the **first line of defence,** and are:

- Responsible for the day-to-day management of risk and control within the business operations, and
- Deliver the strategy and optimise business performance.

2

**Second-line defence** functions comprise of Discovery Bank's risk management function and compliance function. These are independent functions that provide limited assurance to the Board concerning the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timeous access to any records required to carry out their responsibilities:

- The risk management function is independent (of first-line business management) and is responsible for designing and ensuring the operational effectiveness of the risk management system for all risk types. This is a centralised function, headed up by the Chief Risk Officer.
- The compliance function ensures that Discovery Bank can meet its regulatory obligations and promotes a corporate culture of compliance and integrity. This function also provides limited assurance to the Board concerning the adequacy and effectiveness of the overall risk management system.
- Second-line defence functions comprise of the following key functions:
  - Credit risk
  - Operational risk
  - Security risk
  - Balance sheet management
  - Information management.

3

**Third-line defence** comprises of Discovery Bank's independent assurance functions (internal and external audit) that provide an independent and balanced view of the effectiveness of the first- and second-line functions as defined above.

- Bank internal audit performs an assessment on the effectiveness of the risk management system on an annual basis or when requested to do so. The findings from these audits (external and internal) are reported to the Bank Audit and Compliance Committee and various other governance structures across Discovery Bank.

## The Combined Assurance approach

Discovery Bank has created a combined assurance approach to better achieve cohesion across the different assurance functions. The purpose of the Combined Assurance approach is not to alter the mandates of the assurance providers but rather to coordinate the efforts of assurance providers in an integrated assurance approach to ensure that material risks are addressed efficiently with the mandate thereby ensuring that all key risks have controls that are being managed by the different risk areas.

Within the three lines of defence, Discovery Bank has an independent Internal Audit Function, Risk Management and Compliance functions which, while independent, provide combined assurance in a coordinated approach through:

- Aligning risk management activities with assurance activities.
- Providing the basis for identifying any areas of potential assurance gaps and duplication of efforts within the Combined Assurance approach.
- Ensuring an adequate and effective risk control environment that is aligned with risk appetite, and ensuring the integrity of risk-related reports in order to inform better decision-making.

The organisational strategy is core and serves as the basis for the identification and formulation of objectives as part of the drive to implement the strategy. To manage risk within acceptable levels, controls associated with the risks are used and modified

The Combined Assurance Forum has identified key material impact risks from non-combined assurance stakeholders in ensuring a holistic Combined Assurance approach.

## Compliance with the principles for effective Risk Data Aggregation and Risk Reporting (RDARR)

BCBS 239: Principles for Effective Risk Data Aggregation and Risk Reporting, was issued in January 2013 and has been incorporated into local bank regulations through Directive 2/2015, which requires all banks to comply with the principles.

Discovery Bank has concluded its RDARR journey and is currently in the process of independent audit review.

## **Risk management** approach / CONTINUED

Compliance with these principles demonstrates that Discovery Bank is largely compliant, and business areas are working to ensure they are fully compliant.

| Fully compliant | Largely compliant | Materially non-compliant | Not implemented |
|---|---|---|---|

**RDARR Capabilities and Practices**

| Pillar | Status | Component | Justification |
|---|---|---|---|
| **Governance and architecture** | Largely compliant | **Principle 1:** Governance | We have developed a governance committee structure underpinned by clear risk data ownership and responsibilities. Minor shortcomings relating to the **documentation of a centralised service level agreement, BCP and BIA** for data-related processes and **reporting during stressful conditions** have been identified. |
| | | **Principle 2:** Data architecture and IT infrastructure | Real-time and accurate access to a single trustworthy golden source of record exists for most of our risk data. Asset change (enhancement or fix) is centralised and in real time. |
| **Risk data aggregation capabilities** | Largely compliant | **Principle 3:** Accuracy and integrity | Our ability to consume, validate the accuracy and monitor the integrity of data in real time throughout the reporting and information landscape is operational. A need for a **standardised data aggregation approach has been identified where manual processes** exist. |
| | Fully compliant | **Principle 4:** Completeness | We have a sufficient level of control in our single enterprise warehouse, across our reporting landscape, and supporting our business operations and analytics. |
| | | **Principle 5:** Timeliness | Our capability to produce risk data on a timely basis, including the production of rapid risk data to assess critical risk in stress or crisis is treated the same way as with normal situations. **Documentation of our processes under normal and stress or crisis periods** require documentation. |
| | | **Principle 6:** Adaptability | The design and configuration of risk reports is predominately a business task, with additional support from IT. Discovery Bank's approach to self-service reporting enables the capability for quick decision-making and supports data customisations (such as dashboards and weekly risk reports). |
| **Risk reporting practices** | Fully compliant | **Principle 7:** Reporting accuracy | Where critical reports are concerned, an independent validation process exists, which includes an appropriate sign-off process (regulatory reporting). As we continue to develop this capability across Discovery Bank's risk taxonomy, we are **continuously assessing and documenting controls.** |
| | | **Principle 8:** Comprehensiveness | The Enterprise Risk Management Committee (ERCO) and other committees are in place and provide comprehensive reports that allow management to make informed decisions across all in-scope risk areas (credit, market, operational, liquidity, business, and strategic risks). |
| | | **Principle 9:** Clarity and usefulness | Discovery Bank maintains an appropriate balance between risk data, analysis and interpretation, and qualitative explanation. A higher degree of qualitative interpretation is evident in committee packs that are distributed to senior management and higher. |
| | | **Principle 10:** Reporting frequency | The purpose of each report is to routinely assess the committee's mandate and whether its frequency is appropriate. |
| | | **Principle 11:** Reporting distribution | Discovery Bank ensures that reports are distributed to the relevant parties while consciously ensuring that confidentiality is maintained through committee distribution lists. A role-based access control approach is under review. |

## Risk appetite

To execute Discovery Bank's strategy insofar as it applies to the risk appetite framework and achieve an adequate balance between risk and reward, Discovery Bank has adopted the following principles:

- We seek to maintain a financially sound position by ensuring that the Bank is well capitalised and funded and will continue to meet its internal and regulatory capital and liquidity requirements.
- We avoid instances where the Bank is exposed to very volatile or potentially extreme outcomes, which could threaten the viability of the business.
- We only accept risks that provide an appropriate balance between risk and reward.
- We only accept risks for which the Bank has the required expertise and is skilled at managing.
- We only accept risks arising from products sold to help clients improve their financial wellness while generating sustainable long-term revenues for Discovery.

Our risk appetite considers all the pertinent risks within the Discovery Bank risk universe to ensure no unnecessary exposure is introduced onto our balance sheet or within our operating environment. The associated parameterisation of this is embedded in our risk response, articulated in the Risk Appetite Statement and forms an integral part of our monitoring processes. Overall, the risk portfolio is "at appetite" with no concerns in terms of risk management.

## Key risks

### Strategic risk

Strategic risk refers to the risk inherent in the chosen strategies of Discovery Bank and the possibility that these strategies may not result in the desired or planned outcome. These strategies, in the context of Discovery Bank, refer to growth optimisation, products, channels, customer value offerings, partnerships, marketing, and systems. Strategic risk is, therefore, the possible source of loss that might arise from the pursuit of an unsuccessful business plan, making poor business decisions, substandard execution of decisions, or inadequate resource allocation. Although Discovery Bank is a relatively new entrant to the market with a unique but unproven strategy, the last three years has showed a robust business method.

### Business risk

Business risk refers to the risk caused by uncertainty in the ability of the business to generate sufficient returns given the current and changing operating environment in which Discovery Bank operates. It is the risk that the Bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In an extreme event, business risk can be seen as the risk of being unable to cover one's cost base should all or most of an entity's earnings fall away. Banks typically have three major components of business risk in their profit and loss:

- **Net interest income**
  - Net interest income is impacted by the Bank's margin management and is dependent on business volumes, funding costs and other external factors.
- Non-interest revenue
  - Non-interest revenue will be affected by the volatility of the fee and commission income linked to the Bank's lending business. The stability of fee income may also be affected by economic cycles.
- Operating expenses
  - The level of operating expenses will depend on the proportion of variable costs to total costs and management's ability to reduce these in times of stress. Predictability of other expenses and adherence to predefined budgets is also key.

An adjacent priority is the retention of, in addition to our overall staff complement, key individuals within Discovery Bank, with interventions introduced to alleviate work pressure, managing the blurring of the workday as a consequence of work-from-home realities, and ensure a healthy work-life balance. This is to ensure longevity within the Bank and appropriate coverage within the business.

Key business risk metrics are managed through the risk appetite, and governance processes are in place to manage any undue risk that might arise from these.

## Risk management approach / CONTINUED

### Reputational risk

Reputational risk is a risk of loss resulting from damages to Discovery Bank's reputation consequent to an adverse event that affects the company irrespective of whether the event is the result of the Bank's own actions or an external party's actions. Reputational risk losses typically manifest through other risk types of events. For example:

- Business risk: Lost revenue due to lower client volumes or client attrition.
- Operational risk: Increased operating regulatory costs.
- Liquidity and funding risk: Increased funding costs or loss of liquidity.
- Other: Destruction of shareholder value.

Reputational risk is difficult to quantify as it arises when one or more of the other key risks manifests and, therefore, is indirectly captured therein. In particular, operational risk events typically have the greatest propensity to result in damage to the Bank's reputation. Discovery Bank approaches the management of reputational risk in a manner not dissimilar to the other risk types, through a process of identification, assessment, monitoring, mitigation, and controls.

The typical sources of reputational risk are related to:

- Regulatory compliance
- Ethical practices
- Financial performance
- Corporate governance

Discovery Bank has a low tolerance for reputational risk and adheres to best practices in providing quality services to clients. Client grievances, another causal factor of reputational risk, are addressed in a timely and effective manner. Discovery Bank monitors both social media channels and traditional media to track any complaints against the brand. Client feedback is monitored through the client contact centre on a real-time basis. Discovery Bank aims to remain a client-focused, fair and transparent business that delivers a world-class product to clients. If any reputational event occurs, it will be investigated and the results thereof, as well as the proposed response plan, will be reported to the Enterprise Risk Committee (ERCO).

### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example, the breakdown of IT systems, human error, fraud, other deficiencies in internal control), or from external events (natural disasters, external crime, etc.). This definition includes compliance, legal and financial reporting, information security, security and execution risk, but excludes strategic and reputational risk.

The various business activities that are undertaken by Discovery Bank expose the organisation to numerous types of operational risk.

**Operational risk includes:**

**Fraud (incl. internal fraud; external fraud)**
The risk of financial crime and unlawful conduct impacting on the Bank.

**Employee practices and workplace safety**
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

**Clients, products, and business practices**
Risk of losses arising from unintentional or negligent failures to meet professional obligations to specific clients (including fiduciary and suitability requirements), or from the nature or design of products.

**Business resilience (incl. damage to physical assets; business disruption and systems failure)**
– The risk that the Bank will be unable to anticipate, prepare for, and respond and adapt to incremental change and sudden disruptions to survive and prosper.

**Information technology (incl. cyber security; information technology)**
Risk associated with the use, ownership, operation, involvement, influence, adoption, and development of technology within the Bank. It consists of technology-related events and conditions that could potentially impact the business.

**Information security**
Risk of accidental or intentional unauthorised use, modification, disclosure, or destruction of information resources, which would compromise the confidentiality, integrity or availability of information assets and personal information.

**Execution, delivery, and process management**
The risk to organisation's service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner.

It is the Bank's objective to minimize all losses or reputational damage that may arise from these operational risk types. To achieve this objective, the Bank has in place a robust set of processes that enables it to identify operational risks and mitigate potential losses. Operational risk is managed through the 3 lines of Defense model.

## **Risk management** approach / CONTINUED

Specific focus was on anti-fraud strategies and security enhancements to protect and safeguard the Bank.

### The strategy aims to develop effective mitigation controls that will protect the Bank and our stakeholders from the risks of fraud.

**Objective**

To prevent, detect and respond appropriately to fraud threats, through timely remedial action.

To identify client activities that could give rise to risk with the aim of achieving a frictionless experience and prevent fraud through the support of frameworks, policies, operating protocol and fraud prevention tools.

Protect all stakeholders and minimise the impact from any compromise, intentionally or unintentionally, in real time.

| | | |
|---|---|---|
| Ecosystem | Fraud Strategy, Frameworks, Policy and Processes | ▪ Management of fraud risk appetite measures<br>▪ Policies (Internal anti-fraud culture measures and controls i.e. financial crime risk management & anti-fraud policies)<br>▪ Standards & Procedures – protocol |
| Governance | Fraud Oversight through the Enterprise Risk – Fraud Governance Committees | ▪ Regular Fraud Risk Committee<br>▪ Monthly Industry Fraud Committees and Working Groups: SABRIC, PASA, SAFPS<br>▪ VISA monthly fraud insights sharing |
| Anticipate | Fraud Trends, Fraud rule environment Optimisation | ▪ Weekly fraud rule performance assessment measuring rule effectiveness<br>▪ Global and local trend analysis (Bank and industry data)<br>▪ Projects and initiatives to support the fraud strategy |
| Prevent | Fraud Systems & Tools | ▪ Fraud Engine VISA, Actimize, SAFPS<br>▪ Advanced fraud data analytics<br>▪ Adhoc fraud trend and case investigations |
| Respond & Recover | Fraud Operations | ▪ Client satisfaction and data Management<br>▪ Management of quality within acceptable levels<br>▪ Real-time fraud response and client support<br>▪ Fraud resolution rates and loss management |
| Resilience | Fraud Awareness – stakeholders, clients and staff | ▪ Monthly newsletter and adhoc fraud and security awareness campaigns<br>▪ Dedicated fraud notification through the Banking App |

Due to the digital nature of the Bank's offering, the necessity to accept some level of security risk has been recognised. Tolerance for security risk is low and the Bank ensures that through robust vulnerability scanning and continuous updates, security risk is minimised. We will aim to ensure that the security risk is minimised through proactively managing the following three key risks:

**Three key risks**

- Ensure no environments remain unmanaged
- Protect the Bank against unwanted visitors
- Ensure we remain robust to protect against any unknown attacks

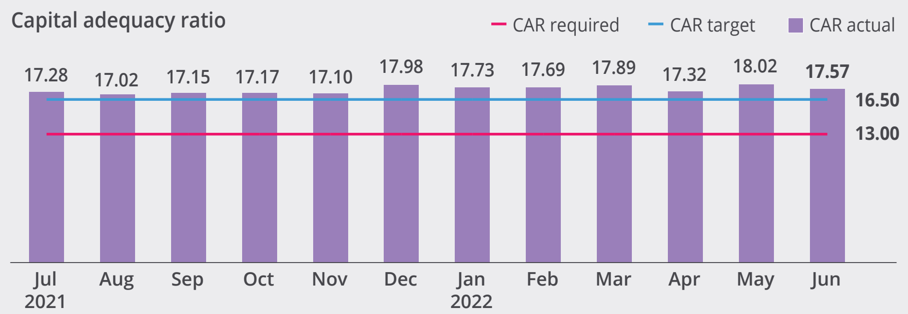
| Securing the perimeter | Securing the endpoints | Managing the keys | Detecting the intruders | Keeping our eyes on the glass |
|---|---|---|---|---|
| Firewalls settings | Anti-virus | User account management | Phishing mitigation | 24x7 monitoring |
| VPN access | Patching levels | Privilege access management | Endpoint detection and response | SOC operations |
| Internet content filtering | Data loss prevention | 2nd Factor authentication for critical patches | Threat detection platforms | |
| DDOS Mitigation | Endpoint encryption | Password vault | Security operations center (SOC) rules (business and technical) | |
| Network access control | Vulnerability scanning | | | |

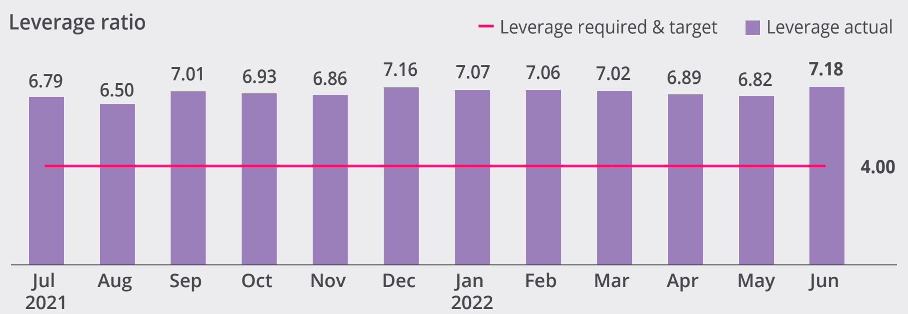
External threat levels

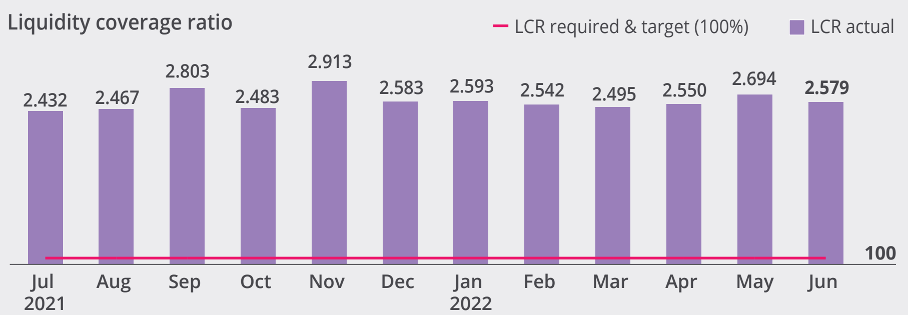
Vulnerability scan coverage

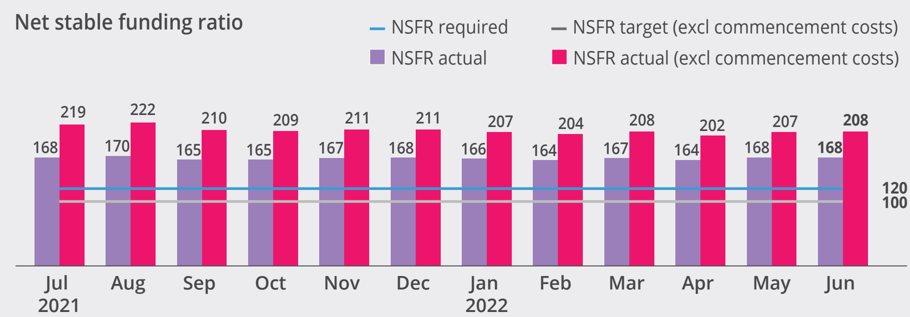
## Regulatory risk

Discovery Bank conducts its business activities within a highly regulated environment and has zero tolerance for regulatory risk. Implementation and enforcement of the Protection of Personal Information Act (POPIA) through the organisation and across different data platforms were successful. All Bank's Act (BA) Regulatory Risk reports have checks and balances with appropriate levels of sign-off in place to ensure accurate and timely submissions. All regulatory ratios continue to meet minimum requirements.



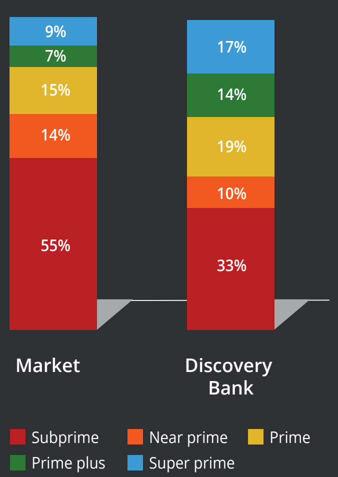

### Credit risk

Discovery Bank's deliberate approach is to pursue a prudent, quality-focused credit strategy. Our portfolio[12] shows a superior credit quality compared to market, with credit loss ratios trending downwards.

## Attracting good credit risk driving improved credit quality

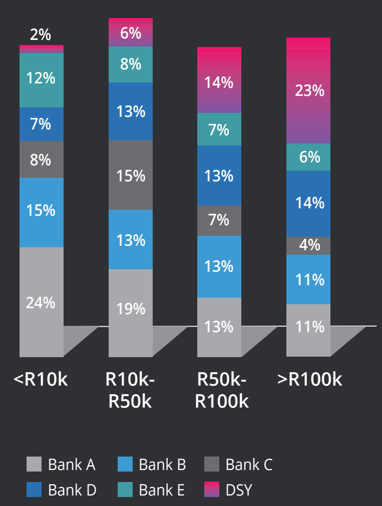
### New business by risk tier by exposure*

* Mar YTD

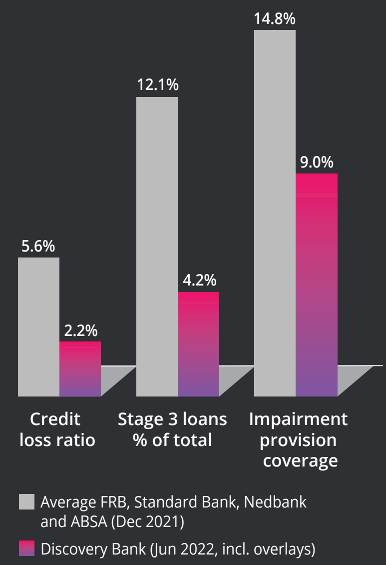



### New business distribution by income*

New credit card market share (volumes) by monthly client income (Discovery vs. top 5 Banks: Jan-Mar 22)



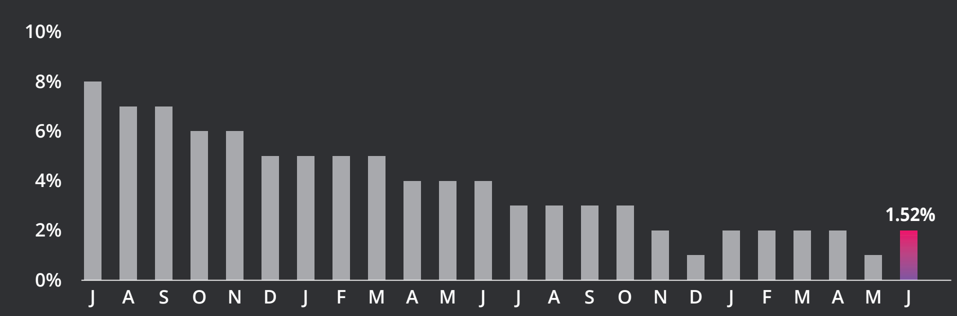

### Key credit metrics ahead of market



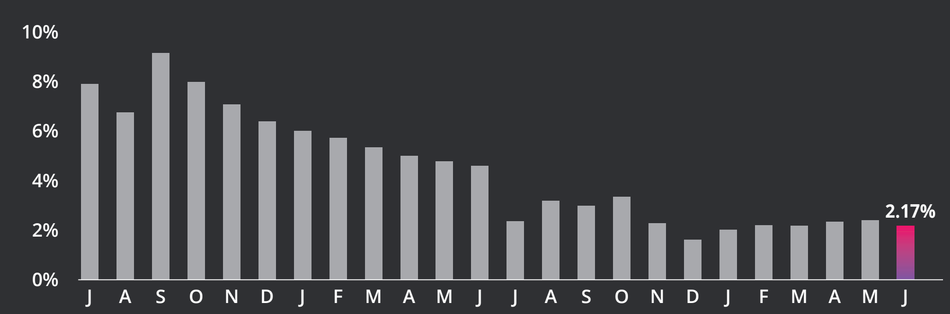

* *Source: TransUnion report, View 1: New Bookings Credit Card Market.*

*12 FY22 financial results.*

Credit loss ratio (excluding overlays)




Credit loss ratio (Including overlays)



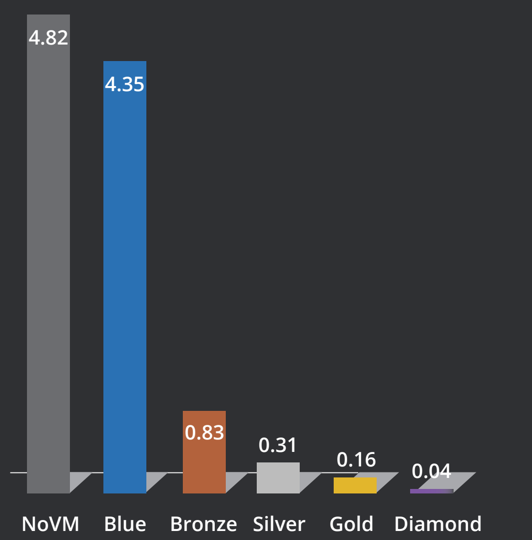

The Vitality Money status shows how financially healthy clients are less likely to default as per our share model assumptions, especially the Diamond status cohort.

Discovery Bank further applies a consistent definition of default for regulatory and accounting purposes. The Bank's default definition for model development (considering a 12-month outcome period) considers whether:

- The account was 90 days past due
- The borrower was placed in debt counselling or debt review
- The account had undergone restructuring or special arrangement
- The account was placed in charge off or legal status
- The account was written off.

Specific impairments are raised against accounts that are identified as being in default and where there is objective evidence that, after initial recognition, not all the amounts due will be collected. The new standardised approach for calculating the EAD of counterparty credit risk exposures was also successfully implemented on 1 January 2021. This approach was to replace the Current Exposure Method (CEM) with the Standardised Approach for Credit Concentration Risk (SA-CCR).

Arrears by best Vitality Money status in last 12 months (%)



Discovery Bank



## IFRS 9

Discovery Bank calculates all impairments and credit losses based on the International Financial Reporting Standards (IFRS) approach. Given a relatively muted COVID-19 environment Discovery Bank deemed it appropriate to release a substantial amount of the COVID-19 overlay by June 2022. In this transition period, moving out of a Covid-19 environment, the Bank will review the necessity of the remaining COVID-19 overlay held against a select at-risk population in the 2023 financial year.

The current local and global economic climate, coupled with aggressive inflation and interest rate increases, poses a risk of increased credit losses in the foreseeable future – over and above the expected losses estimated by Discovery Bank's IFRS 9 models. A macroeconomic overlay is raised as a measure of prudence by applying a probability of default stress, informed by the Bank's macroeconomic model, to the retail credit portfolio. The quantum of the macroeconomic overlay will be reviewed on a quarterly basis as and when updated macroeconomic outlook information is received from the Bureau of Economic Research.

In aligning our reporting standards in addition to the adopted "Standardised Approach", Discovery Bank uses the following definitions:

**Past-due loans:** The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, is to be included in this category.

**Default or credit-impaired:** Default is defined on a facility level and considers both quantitative and qualitative factors as provided in the Basel Capital Framework. The qualitative criteria require banks to identify credit deterioration before the exposure becomes delinquent, considering "unlikeliness to pay" events, while the quantitative criteria require banks to look at the material delinquency status.

Regulation 67 of Discovery Bank's Act defines default as constituting both qualitative and quantitative components. Discovery Bank is guided by this definition and considers the various factors as outlined below:

Qualitative:

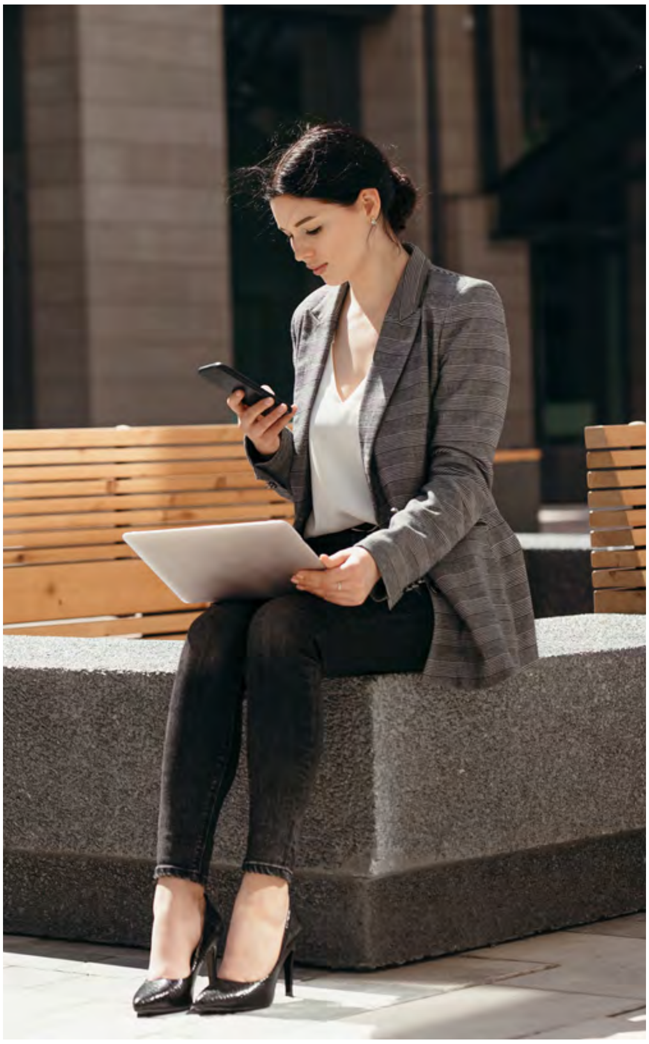
- The borrower is placed in debt counselling or debt review
- The borrower is deceased
- The facility has undergone a distressed restructure or special arrangement
- The facility has been transferred to charge off or legal status
- The client is under debt review
- The client is insolvent
- The facility is written off.

Quantitative:

- A material amount on the facility is 90 days or more in arrears.

Through the risk appetite framework, risk metrics or key indicators are established, against which all activity is tracked and measured. This ensures alignment with achieving the business strategy, while simultaneously managing the risks taken to do so. Credit risk is an integral part of this risk appetite construct, approved by the Bank board. Credit risk is actively managed, all exposure and loss tolerance are monitored, thereby mitigating against credit exposure on the book. Monitoring occurs daily, with escalation as defined by the governance process. In addition, broader reporting to the various governing bodies such as the Credit Risk Review Committee or the Risk and Capital Management Committee, or both, occurs either monthly or quarterly.

Considered collectively, the team, the loan strategy, the default definitions, the collections strategy, IFRS 9 accounting standards, governance oversight underpinned by sound risk fundamental,s and Board-approved risk appetite limits, make Discovery Bank comfortable that credit is managed appropriately and growth is in line with expectations.



# **Risk management** approach / CONTINUED

The following tables provide an overview of the exposures by industry, geographical area, impairment, and an ageing analysis of "accounting past due" exposures.

### Summary of exposures by industry

Exposure and expected credit loss as at 30 June 2022

| Industry/Sector | Exposure | Expected Credit Loss |
|---|---|---|
| Private households with employed persons* | 4 308 309 674 | 403 183 262 |
| Financial intermediation, except insurance and pension funding** | 6 042 356 911 | 11 176 |
| **Total** | **10 350 666 585** | **403 194 438** |

* *Retail exposure.*

** *Includes corporate exposures in South Africa (Interbank Loans, Bonds, Debentures and Treasury Bills) and Bank exposure in Singapore (collateral placements).*

### Summary of exposures by geographical areas

Exposure and expected credit loss as at 30 June 2022

| Region Name | Exposure | Expected Credit Loss |
|---|---|---|
| **South Africa** | **10 317 041 335** | **403 194 423** |
| Eastern Cape | 115 541 188 | 11 613 269 |
| Free State | 59 713 809 | 6 385 696 |
| Gauteng* | 8 516 692 743 | 235 298 922 |
| KwaZulu-Natal | 457 293 659 | 47 519 166 |
| Limpopo | 48 833 303 | 5 426 791 |
| Mpumalanga | 79 735 730 | 9 349 834 |
| Northern Cape | 16 489 826 | 1 590 657 |
| Northwest | 66 008 337 | 7 215 544 |
| Western Cape | 956 679 807 | 78 787 413 |
| Unknown | 52 933 | 7 132 |
| Singapore** | 33 625 250 | 15 |
| **Total** | **10 350 666 585** | **403 194 438** |

* *Includes corporate exposures in South Africa (Interbank Loans, Bonds, Debentures and Treasury Bills)*

** *Bank exposure in Singapore (collateral placements)*

### Ageing analysis

| Arrears Status | Exposure | Expected Credit Loss |
|---|---|---|
| CURRENT* | 10 109 141 209 | 226 093 037 |
| 1-29 | 37 227 735 | 13 524 818 |
| 30-59 | 22 264 273 | 9 010 249 |
| 60-89 | 18 209 340 | 12 540 483 |
| >=90 | 163 824 027 | 142 025 850 |
| **Total** | **10 350 666 585** | **403 194 438** |

* *Includes corporate exposures in South Africa (Interbank Loans, Bonds, Debentures and Treasury Bills) and Bank exposure in Singapore (collateral placements).*

Discovery Bank had granted some restructures, under Directive 3 of 2020 as part of the COVID-19 relief strategy, which are now being treated as distressed restructures under Directive 7 of 2015. The remainder of the restructures reported are related to exposures being under debt review.

### Total restructure values

| Arrears Status | Exposure | Expected Credit Loss |
|---|---|---|
| **Restructured loans** | **50 036 129** | **45 288 492** |

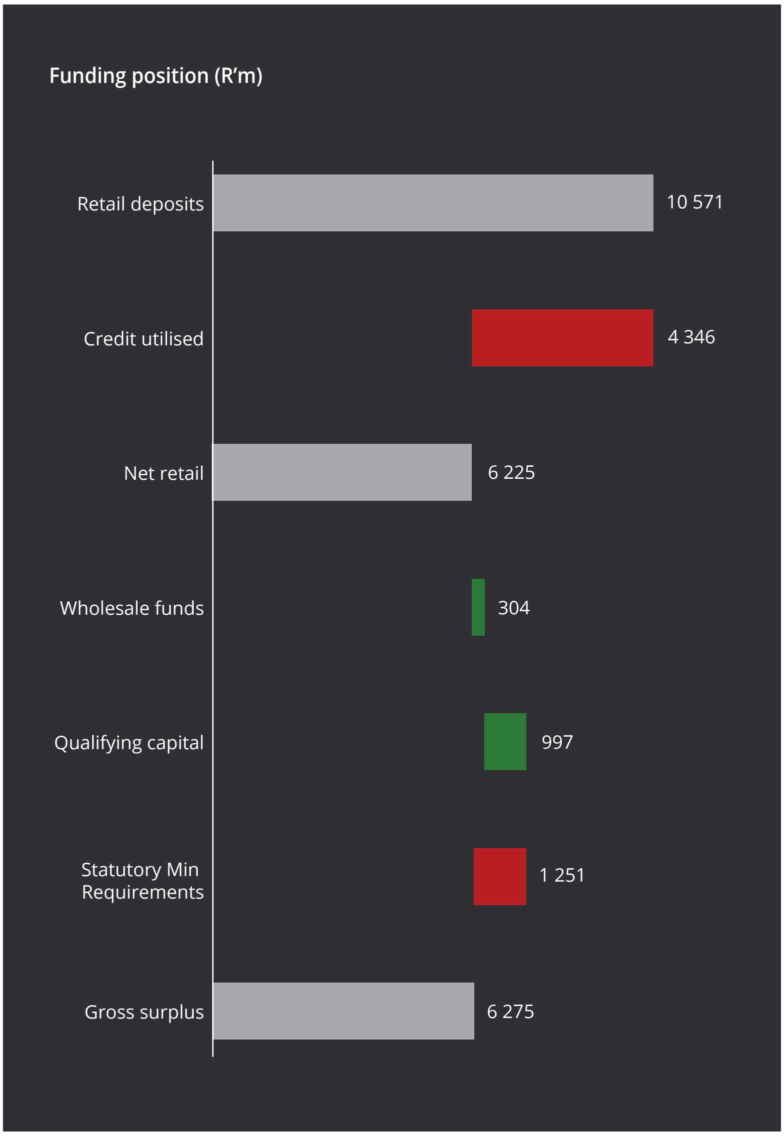
## Liquidity and funding risk

At the end of June 2022, Discovery Bank still had significant liquidity surpluses totalling R6.23bn. While growth in the Bank's retail deposits has slowed slightly, Discovery Bank still holds a large net retail funding surplus of R4.682bn, with retail deposits recorded above the R10bn mark as at 30 June 2022. The wholesale funding has largely been repaid following the buyback from the two asset managers of R0.5bn worth of NCDs during June, slightly earlier than originally planned. Only R304m of wholesale funding remains with a one-year maturity date (July 2023).

Various stress tests were previously conducted, and it was accepted that a total R2.1bn liquidity buffer comprised R545m regulatory High Quality Liquid Assets Reserve (HQ-LaR) and R1.6bn internal ALCO Liquidity Buffer. These two buffers equate to a 45-day survival horizon over which Discovery Bank would not require adjustments to its business model.

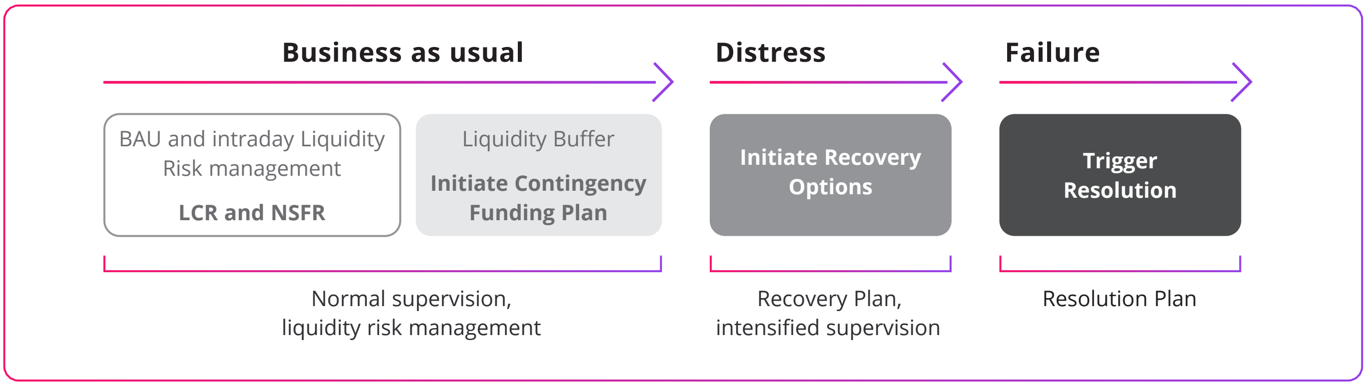
The combination of the ALCO liquidity buffer and net surplus indicates that Discovery Bank is still very well-funded to support its growth strategies and mitigate an extremely severe liquidity stress scenario. The waterfall below represents a conservative view of the Bank's surplus funds, without making use of the available Liquid Asset Requirement (LaR), average minimum daily reserve with the Reserves Bank (RES) and collateral reserves at the SARB for any funding.

Balance sheet optimisation efforts continued throughout the last quarter of FY2022 that has resulted in a better treasury asset mix and a higher return on treasury assets.




## **Risk management** approach / CONTINUED

Liquidity and funding risk is governed through a robust Liquidity Risk Management Framework. The contingency funding plan is an important component in the liquidity risk management of Discovery Bank. It describes the approach to be followed by the Bank to identify the occurrence of contingencies and the management of liquidity risk during a range of stress events. It sets out the strategies for addressing liquidity shortfalls in emergencies. Different approaches were defined to follow different liquidity stresses.




The contingency funding plan includes the following areas:

- Determining any likely occurrence of a stressed liquidity situation by measuring qualitative and quantitative early warning indicators.
- Determining the level of stress based on an adverse liquidity situation.
- Formulating the action plan to be followed by various teams within Discovery Bank to manage a liquidity event to ensure the financial integrity of the Bank.
- Providing guidelines for the utilisation of liquidity buffers and sources of funding during a contingency liquidity event.

Funding and liquidity stress scenarios are currently managed in our sophisticated funding and liquidity management system based on regulatory guidelines. This system collectively looks at different stress scenarios for different rate changes in the maturity of a product and overlaying this with the Vitality Money and Vitality Health statuses to give a true reflection of the actual exposure Discovery Bank is faced with.

### Recovery plan

The Discovery Bank Recovery Plan (RP) serves as a valuable management framework. The ultimate objective is to establish upfront actions that would be taken to ensure the continued sustainability of the Bank and provide regulators with confidence that such actions will indeed achieve the same. In essence, the RP integrates management actions as described in the capital plans, and the contingency funding plan can be practically implemented. Discovery Bank's recovery plan is designed to be clear, simple, flexible, and more importantly, viable. The Bank views the RP as comprehensive and commensurate with its simplicity, risk profile, and scope of operations. Discovery Bank can track, trigger, and manage the recovery of the Bank however the RP will continue to be tested and will evolve as the Bank advances.

## Market risk in the banking book

Market risk is the risk that a firm's earnings, capital or business objectives will be adversely affected by changes in market prices. It is the risk of loss arising from the price movements in the financial markets. The risk of loss can be in a trading position, portfolio or instrument resulting from volatility of market risk factors.

As a retail-focused bank, Discovery Bank has limited appetite for market risk, and as such, there are no proprietary trading positions and/or transactions involving outright speculation. However, in providing its core services and products it assumes that some market risk that is quantified, monitored and managed.

Discovery Bank launched its multicurrency forex account at the start of the year. This includes the ability to convert between currencies, make forex payments or remittances, accept receipts, as well as hold balances in multicurrency accounts. Discovery Bank's Treasury manages a flow book, acting as a liquidity provider to the client's forex activity described above. The intention is not to trade or enter proprietary or speculative positions. Small Net Open Position limits have been set and are managed and monitored actively.

One of the key considerations was the Bank's ability to execute foreign currency transactions via the authorised payment mechanism and for all cross-border payments to be reported to the Financial Surveillance Department of the SARB. The SARB evaluated the reporting system and issued the authorised dealer licence in July 2021.

Currency risk arises from changes in exchange rates between the rand and the foreign currencies in which assets and liabilities are denominated and may adversely affect profitability and shareholders' equity.

Currency risk has increased with the launch of the forex multicurrency account but it is managed on a daily basis and is within approved limits. In addition to this, to facilitate offshore card transactions by our clients in foreign currencies, Visa has a requirement that Discovery Bank place foreign currency-denominated collateral in its favour with a designated and highly rated international bank and be closely monitored within appropriate risk appetite limits.

## Interest rate risk in the banking book

The nature of Discovery Bank's activities gives rise to continuous exposure to interest rate risk. Interest Rate Risk in the Banking Book (IRRBB) is the potential for financial loss because of the Bank's exposure to adverse movements in interest rates on both its net interest income (earnings) and the economic value of equity. IRRBB is measured and managed through both internal and regulatory lenses

- Banking regulations (BA returns) monthly submissions and the exposure of both earnings (NII) and value (EVE) to interest rates are calculated.
- Internal view includes stresses and scenarios tailored to the particular structure of our balance sheet and may contain different sets of interest rate perturbations.
- Forecast economic and interest rate scenarios are currently sourced from the Bureau for Economic Research.

The sources of **interest rate risk** include:

1. **Gap risk:** *Arises from the term structure of banking book instruments and the timing of rate changes (for example, rate of interest paid on liabilities increases before the rate of interest received on assets).*

   Risk to parallel shifts is measured looking at impacts on both NII and EVE and managed within risk appetite limits.

   Risk to non-parallel shifts has increased since purchasing longer-dated bonds however the exposure in the long-end is limited and does not extend beyond 10 years (meaning limited exposure to the long-end of the yield curve).

2. **Basis risk: Arises** *from changes of interest rates for instruments that have similar tenors but are repriced using different rate indices (specifically prime or repo rate vs JIBAR).* The wholesale liabilities of Discovery Bank are linked to the JIBAR rate while the retail assets are linked to prime rate. With the repayment of some wholesale money, the risk is insignificant, but the current gap between these two floating rates is measured (on both a value and earnings basis), monitored, and managed accordingly.

3. **Embedded options risk:**

Optionality can be broken down into two sub-types:

- *Automatic option risk arising from standalone instruments, such as exchange traded and over-the-counter option contracts, or explicitly embedded within the contractual terms of an otherwise standard financial instruments and where the holder will almost certainly exercise the option if it is in their financial interest to do so, and*
- *Behavioural option risk arising from flexibility embedded implicitly or within the terms of financial contracts, such that changes in interest rates may effect a change in the behaviour of the client (e.g. rights of a borrow to repay a loan, with or without penalty, or the right of a depositor to withdraw their balance in search of higher yield)*[13].

13 *Interest Rate Risk in the Banking Book Standards – April 2016*

Currently, Discovery Bank has limited optionality within our current environment as our product offering consists of only retail products and no standalone instruments. Discovery Bank currently does not have home loans, and our fixed deposits risk of early withdrawal is limited due to the contractual obligations that are in place. We also charge a penalty fee for early breakages which can compensate for the loss of interest between the date of withdrawal and the economic cost of breaking the contract.

The Standardised framework also considers that if the customer has an option, which, if exercised, will alter the timing of a bank's cash flows. Factors that might influence exercising this option can be due to changes in interest rates. Optionality can also occur in Non-maturing Deposit (NMD). This happens when the interest rate changes, and clients then remove money for a better yield elsewhere. Discovery Bank changes rates as and when the Monetary Policy Committee changes rates, and therefore the client is not worse off when rates changes. We also track all the outflows of volatile money over time to determine if we can see an uptick in outflows.

Discovery Bank has incorporated the prescribed BCBS stress scenarios into its banking book and is prepared for the go-live date of 1 January 2023 in respect of BA regulatory reporting. The methodology and implementation were independently validated to ensure accuracy when monitoring the measures. The model validation summary is reported below:

- Independent validation was conducted on the model for calculating the change in EVE.
- This entailed a review and re-performance of the installation of the EVE model, ahead of the BCBS implementation timeline for the prescribed interest rate shock scenarios.
- Components assessed:
  - Formulation of interest rate shock scenarios
  - (Yield-curve construction (bootstrapping), and
  - Mark-to-Market (MTM).
- The conceptual design or methodological framework was assessed to be **fit for purpose** and aligned to the BCBS prescriptions.
- The validation exercise confirmed that the prescribed interest rate shock scenarios have been correctly formulated and configured.
- The parallel re-estimation conducted produced similar results to bank's output, confirming the accuracy, credibility and reproducibility of the model results.

Discovery Bank measures and reports on interest rate mismatches or net static gap across the different investment tenors.

## Model risk

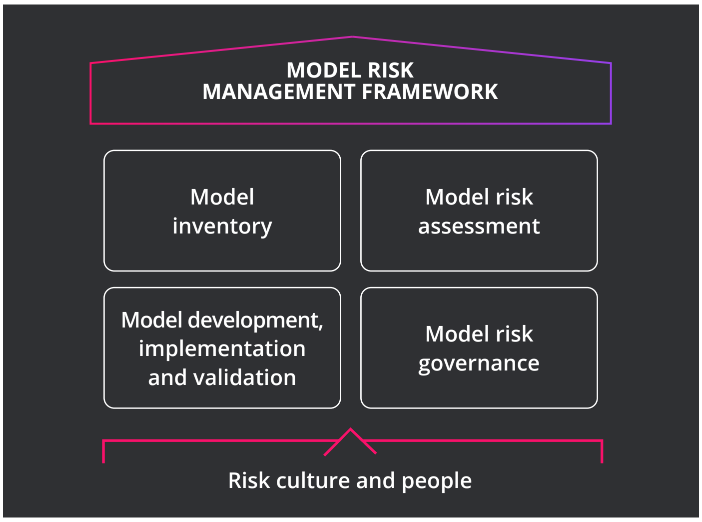
Discovery Bank ensures that all models conform to the bank-wide model risk governance process. This includes risk rating the various models in terms of materiality and complexity and establishing the associated validation efforts required.

Fundamentally, Model Risk Management (MRM) aims at ensuring that Discovery Bank implements the right level of controls for all material models supporting business and decision-making processes. The MRM framework enhances the Bank's ability to identify models that are not fit for purpose, consider and prioritise model development and enhancement requirements while ensuring appropriate governance is maintained.

All three lines of defence have a role to play in MRM, and a clear delineation of responsibilities is articulated for each control activity throughout the lifecycle of the model, from origination to retirement. The design of this framework endorsed an optimum allocation of responsibility, ensuring efficient and effective control of model risk.

Discovery Bank has adopted a risk-based approach to the management of model risk. The nature and scope of the model governance requirements are dependent on the model rating, which is derived from an assessment of the complexity and materiality of the models being used. The model risk is regarded as a principal level 1 risk by Discovery Bank.

The Model Risk Management Framework has been developed, approved, and operationalised. The Model Risk Committee (MRC) is currently chaired by the Deputy CEO. The MRC creates and oversees the comprehensive framework for model risk governance within the Bank and reports on model risk issues and trends to Discovery Bank Executive Committees and the Board of Directors. The framework includes the below dimensions:




We have successfully compiled a full model inventory with the relevant model risk ratings for Discovery Bank and have updated it. The current focus is the constant refresh of the model inventory while working through the models that need full validation and rating.

## Capital management

Discovery Bank is committed to holding adequate capital to absorb unexpected losses, protect our depositors, and meet the expectations of our key stakeholders. The Bank aims to manage its capital efficiently and adequately to balance risk and reward.

The key principles of capital management are described below:

### Principle 1: Risk and capital management

Discovery Bank will always be adequately capitalised to mitigate its short-term risks and will always have an adequate capital plan to meet its long-term strategic objectives.

- **Risk identification and quantification:**

Discovery Bank has implemented and operationalised a comprehensive risk management framework where its risk universe is well defined and roles and responsibilities for the management of each risk type have been set (according to the three lines of defence risk management model).

- **Capital adequacy:**
  - Discovery Bank holds sufficient capital to meet the minimum regulatory capital adequacy requirements, as specified by the Prudential Authority.

| Required CET1 Ratio June 22 | Discovery Bank | Discovery Bank Holdings |
|---|---|---|
| Base minimum | 8.00% | 8.00% |
| Systemic risk add-on | 1.00% | 1.00% |
| Conservation buffer | 2.50% | 2.50% |
| Additional CET1 capital | 5.20% | 5.25% |
| **Common Equity Tier 1 ratio (%)** | **16.70%** | **16.75%** |
| **Total Capital ratio (CAR)** | **17.57%** | **17.62%** |

Currently, Discovery Bank has set its internal capital in line with the following standardised regulatory capital approaches:

1. **Credit risk:** The Standardised Approach (SA).
2. **Operational risk:** The Standardised Measurement Approach (SMA).
3. **Market risk:** The Standardised Approach (SA) using the building block method.

Discovery Bank also adheres to the high-level Internal Capital Adequacy Assessment Process (ICAAP) requirements as set out in Guidance Note 4/2015 issued in terms of section 6(5) of the Banks Act 94 of 1990.

### Principle 2: Capital plan and forecast

Discovery Bank operates a capital management and planning process that is integrated with its strategic planning and forecasts its capital adequacy positions over the longer term. This ensures its capital supply is adequately, timeously, and appropriately managed. A thorough forecasting process is required to measure available capital against capital demand and is frequently updated based on any changes in assumptions to the business case model, as well as prevailing operating conditions.

## Principle 3: Capital raising

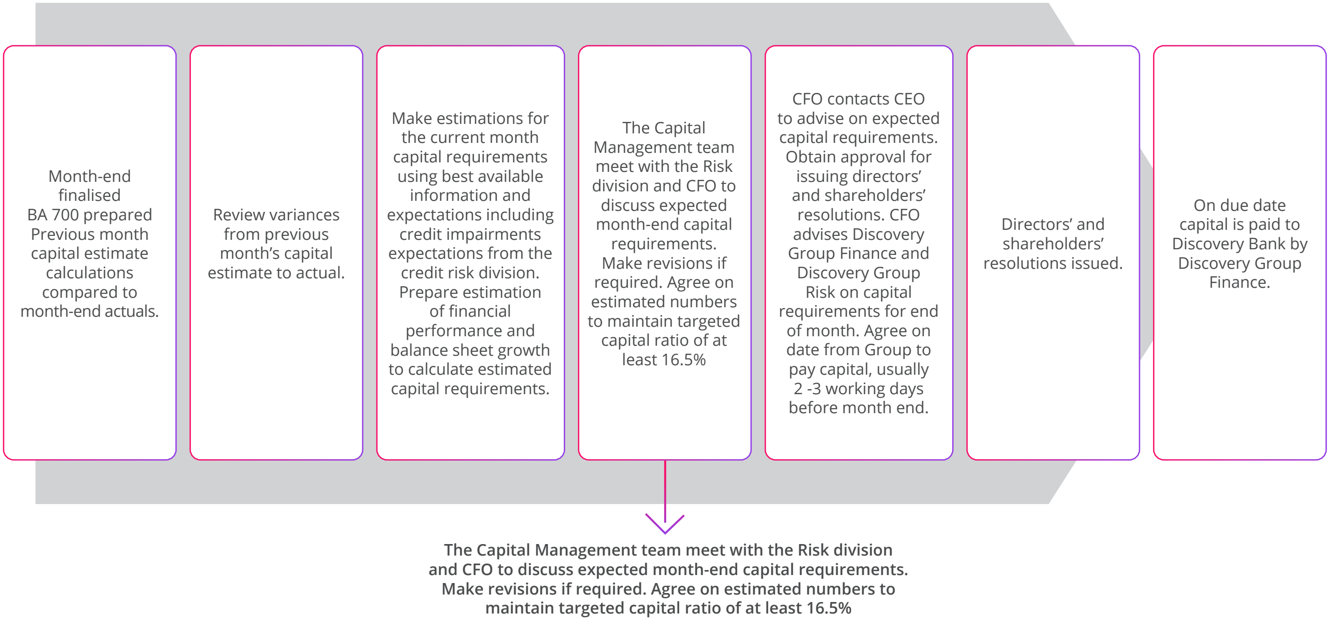
For the first few years following the launch of Discovery Bank, it is forecast that the Bank will be unprofitable and therefore reliant on the sole shareholder as a provider of capital. Discovery Group has agreed to support Discovery Bank's capital requirement in line with the Bank's business plan. The expected capital required, as well as any additional capital required under adverse stress scenarios, has been factored into the group's ORSA (Own Risk And Solvency Assessment) and capital forecasts.

The Discovery Group makes available capital for Discovery Bank's operational and development costs and other regulatory capital demands. Once the Bank has become profitable, consideration will be given to an alternative capital-raising plan.

Management formally assesses the capital position of Discovery Bank on a monthly basis and issues ordinary shares prior to the end of the month in anticipation of capital requirements determined by estimated growth in retail lending, movements in treasury liquidity cash placements, and operational losses for the month. The drawdowns of capital are performed within the capital plan and framework approved by Discovery Bank's board.

The Capital Management Team Procedure to obtain Capital from Discovery Group.

### The Capital Management Team Procedure to obtain Capital from Discovery Group




## Principle 4: Capital quality

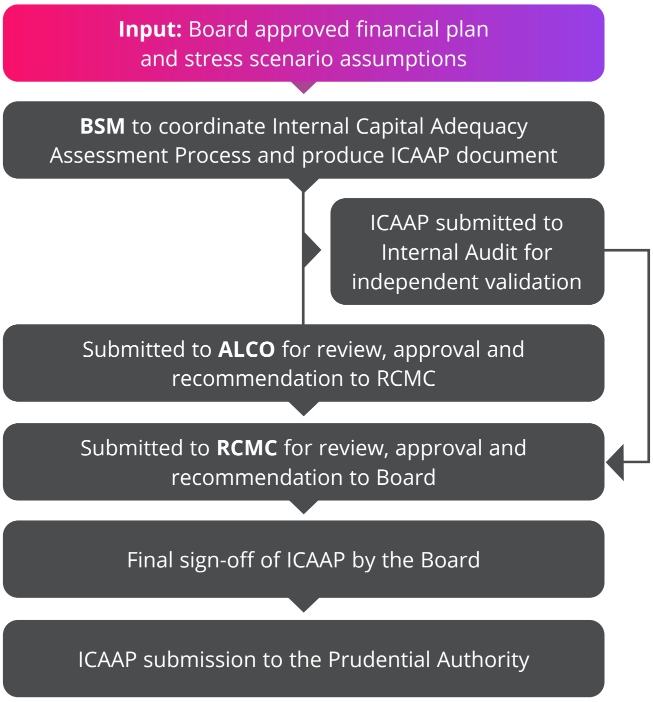
Discovery Bank maintains its capital structure such that it meets the minimum regulatory requirement with respect to the highest quality of capital, Common Equity Tier 1. The composition and structuring of the Bank's capital will initially prioritise the highest quality, but in the future it may consider the most cost-efficient and effective forms of capital where appropriate.

## Principle 5: Capital buffer

Discovery Bank aims to ensure that the level of capital resources will always be in excess of the total regulatory capital requirement. In addition to the internal management buffer to cater for future unexpected growth and volatility in risk-weighted exposures, the Bank also holds an estimation risk buffer.

## ICAAP

Discovery Bank has robust and effective risk and capital management processes that were developed and implemented in the early establishment phase of the Bank. These have since matured in line with Discovery Bank's evolution. The ICAAP document provided evidence of its fit-for-purpose and well-governed risk and capital management process to ensure that capital supply adequately meets capital demand, and that this capital adequacy approach is embedded within the Bank's decision-making process.




## Stress testing

Extreme market movements and crises over the preceding period highlight that it is inadequate to manage risks solely based on "normal" business conditions. When a bank is affected by a severe market shock, it may incur substantial losses as a result of the following:

- The assumptions of how markets behave during normal conditions no longer hold.
- New concentrations of risk emerge through unexpected linkages of different markets.
- Rapid price movements and a squeeze in liquidity or funding across multiple markets, or both.
- Sudden deterioration in the economic conditions of affected countries or regions.
- Difficulties in unwinding or hedging positions during a crisis.

For this reason, Discovery Bank employs stress-testing techniques to estimate the Bank's possible losses under adverse conditions and better prepare for such situations. These stresses are aligned to the size and complexity of Discovery Bank's balance sheet. Apart from considering the effects of exceptional (but plausible) events, the Bank looked at various other levels of adversity (for example, by including mildly stressed scenarios) to assess its vulnerability under differing conditions.

Discovery Bank's stress testing framework considers the nine revised BCBS[14] principles.

| | |
|---|---|
| ST 1 | Stress-testing frameworks should have clearly articulated and formally adopted objectives |
| ST 2 | Stress-testing frameworks should include an effective governance structure |
| ST 3 | Stress-testing should be used as a risk management tool and to inform business decisions |
| ST 4 | Frameworks should capture material and relevant risks and apply stresses that are sufficiently severe |
| ST 5 | Resources and organisational structures should be adequate to meet stress-testing objectives |
| ST 6 | Stress tests should be supported by accurate and sufficiently granular data, and by robust IT systems |
| ST 7 | Models and methodologies to assess the impacts of scenarios and sensitivities should be fit for purpose |
| ST 8 | Stress-testing models, results and frameworks should be subject to challenge and regular review |
| ST 9 | Stress-testing practices and findings should be communicated within and across jurisdictions |

Stress testing enables Discovery Bank to assess the likely impact of unlikely but plausible events. The financial impact indicated by stress testing is compared with tolerance limits, and necessary remedial actions are initiated for any breach of limits over the period. Since it is not possible to envisage all possible stress situations in advance, remedial actions are considered on a case-to-case basis commensurate with the level of perceived risk by the relevant committee. Currently, stress testing practices are aligned to the size and complexity of our book. Once Discovery Bank has a larger client base and a complex product suite, consideration will be given to more sophisticated stress testing scenarios.

14 *The Basel Committee on Banking Supervision Stress Testing Principles (d450), October 2018*

## **Risk management** approach / CONTINUED

### Hybrid working model

During the height of the COVID-19 pandemic, the safety of our employees was our main priority. Still, it was important to manage and mitigate risk and maintain excellent service levels during this time.

Security protocols and controls were quickly enhanced to enable most of our employees to work effectively and safely from home. As a fully digital bank, Discovery Bank does not have a physical branch network. We have always serviced clients remotely and, during the pandemic, remained available to our clients on a 24/7 basis. We created Live Assist, an effective remote servicing functionality on the Discovery Bank app that allows clients to share their phone screen with a Discovery Banker to get live, step-by-step guidance, similar to in-person assistance.

Once the safety and efficacy of the vaccine had been proven, Discovery implemented a mandatory vaccine policy for all staff, irrespective of work location.

This policy, along with the drop in infection rates, paved the way for a return to the office early in 2022. Discovery Bank has adopted a hybrid working model whereby most employees work partially in the office and partially at home. In-office time is used for collaboration and innovation sessions, in-person team meetings and one-on-ones and for cultural and team building activities. For some roles, for example, in the Systems division, remote working has proven to be more effective than being in the office. These employees spend most of their time working from home but still come to the office on an occasional basis. The call centre and some of the operational teams have returned to being fully office based.

We will continue to monitor and adapt the model to best balance the needs of our business, our clients, and our employees.

# 03

# Remuneration

# Remuneration

### Material risk takers:

Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines material risk takers as the members of the Discovery Bank Executive Management team that are also Executive Directors of Discovery Bank.

### Senior management:

Discovery Bank defines senior management as the CEO's direct reports who are members of the Executive committee, excluding the Executive Directors of Discovery Bank.

At Discovery Bank, we believe that our employees are the foundation of our success. We offer a culture built on innovation, exceptional client service, doing what is right, continuous learning, and providing challenging and meaningful work. By liberating the best in our employees, we believe that we will be able to achieve our ambition of successfully running the best bank in South Africa, globally recognised for its Shared-value Banking model that makes people financially healthier and enhances and protects their lives. We are committed to offering competitive total rewards that enable us to:

- Attract, retain and motivate high-calibre people from diverse backgrounds who have the right mix of skills, experience and knowledge to deliver on the strategy.
- Encourage and incentivise performance and reward employees who exceed their objectives.
- Align the financial wellbeing of our employees with the economic interest of our shareholders and the needs of our clients to deliver sustained long-term value guided by our shared-value model.
- Provide an environment that encourages innovative thinking and extraordinary performance.
- Bring consistency, transparency, fairness and equity-to-pay principles, which will increase trust and employee engagement.
- Recognise differences in individual performance, value and contribution through a flexible approach that ensures fair pay levels and defensible decisions.
- Align with good corporate and reward governance and our risk management framework.
- Strengthen our desired owner-manager culture that is consistent with our core purpose and values.

We balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation with a consistent framework that ensures fair pay levels and decisions.

## Remuneration principles

- To succeed, we must have talented people in the right roles, and strive to offer pay packages that are competitive in the market.
- 'Pay-for-performance' is at the heart of our remuneration philosophy, and we encourage all employees to set and achieve ambitious goals that are aligned with the objectives of the company – exceptional performance is recognised and rewarded.
- We believe in pay that is right and fair – we conduct regular salary surveys both internally and externally to ensure fairness and consistency across the business.
- We recognise that pay is not the only reason why employees join and stay at Discovery Bank, but it is of significant concern if it is not right or equitable.
- We are non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status, sexual orientation, and ethnic or social origin.
- We employ a total Cost-to-Company (CTC) approach to remuneration, which includes both financial and non-financial components.
- Our short-term incentive schemes are designed to encourage, recognise and reward performance and are based on rigorous objective setting and measurement, while allowing sufficient flexibility to respond to different business needs.
- Our long-term incentive schemes create a sense of ownership in the company, and specific schemes are designed for start-ups (to encourage an entrepreneurial mindset) and retention.
- Our remuneration policy empowers managers to make educated and defensible pay decisions.
- All reward policies and practices are governed by the Director Affairs Committee (DAC), a committee of the Bank Board, which incorporates the Bank Remuneration Committee, with support from the Discovery External and Internal Remuneration Committees (D-ERC and D-IRC).

## Remuneration governance

The Bank Board is ultimately responsible for the remuneration policy and has mandated Discovery Bank's Director Affairs Committee (DAC), a Board sub-committee consisting of non-executive directors to assist in fulfilling its responsibilities for ensuring that total rewards are fair and responsible.

The purpose of the DAC is to consider, agree on, and recommend to the Bank Board an overall reward policy and framework for Discovery Bank that recognises the interests of all relevant stakeholders and is aligned with the regulatory environment, long-term business strategy, risk appetite and organisational values. In discharging this purpose, the key responsibilities of the DAC are to:

- Approve and monitor adherence to the reward policy.
- Ensure alignment with the latest governance standards and risk appetite.
- Review and approve all short- and long-term incentive structures, and monitor overall liability.
- Approve targets for short-term incentives to ensure alignment with the Bank's business plan.
- Regularly review incentive schemes to ensure alignment with and continued contribution towards shareholder value.
- Approve and report to the Board all reward elements for the CEO and other directors.
- Review total reward packages for executive management on an annual basis.
- Review and approve the annual salary increase parameters.
- Achieve a balance between alignment with the Discovery Group and alignment with the banking sector, understanding where differences are required and why.
- If appropriate, amend the performance criteria for variable remuneration should extraordinary circumstances arise, in consultation with Discovery's External Remuneration Committee (D-ERC).
- Recommend the base for non-executive directors' fees to the Board for approval.

The DAC receives input and recommendations from the CEO of Discovery Bank and takes into consideration recommendations from the Discovery Internal Remuneration Committee (D-IRC) (comprising the executive directors and business unit CEOs). The D-IRC is responsible for:

- Providing detailed analysis and research-based recommendations to the DAC.
- Ensuring the remuneration packages of management and employees in general (except for directors) are in line with the policy.
- Implementing the increase and incentive processes and reporting any anomalies to the D-ERC and DAC.
- Recommending new Group-wide schemes and scheme restructures to the D-ERC and DAC.

The DAC uses the services of several advisors to assist in tracking market trends related to all levels of employees. The following advisors or companies are used for benchmarking purposes:

- Remchannel – used for external market benchmarks on an ongoing basis.
- Bowman Gilfillan – used for benchmarking Director and Executive remuneration.

## Total value proposition

Our total rewards approach encompasses both financial and non-financial elements. The financial elements are explained in the sections that follow.

### Value proposition categories:

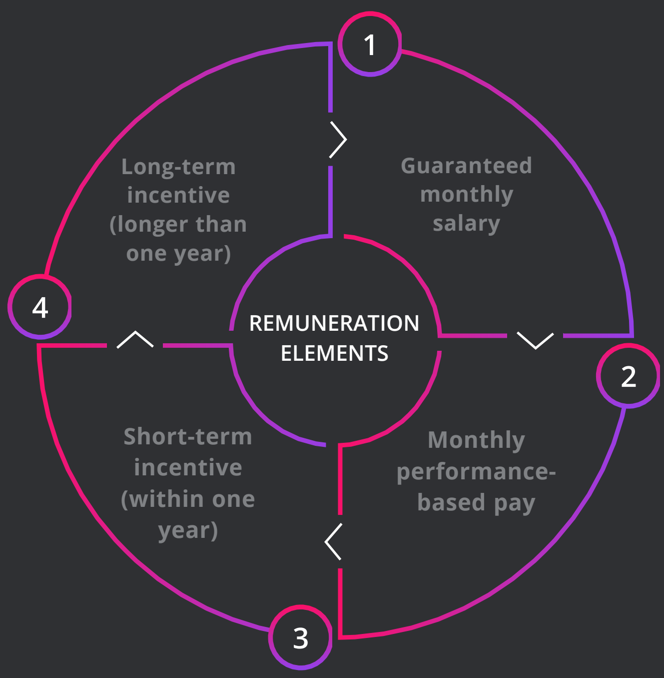
| FINANCIAL | NON-FINANCIAL |
|---|---|
| Guaranteed pay | Challenging and meaningful work |
| Compulsory benefits (medical, group life) | Development and training |
| Retirement funding (pension and provident) | Discovery culture and environment |
| Short term incentives | Recognition (Star awards etc.) |
| Long term incentives | Opportunity to work with great people |
| | Career opportunities |

The mix of the financial pay elements is linked to the organisational level, with the proportion of variable pay and pay at risk increasing at more senior levels.

We offer competitive guaranteed rewards (around the market average), with opportunities in many roles to earn additional variable pay-for-performance incentives, that lead to above-market average total rewards for top performers.

## Remuneration elements

The remuneration policy covers four remuneration elements, although not all employees participate in all elements:




### 1 Guaranteed monthly salary

Our total CTC approach is designed to provide employees with flexibility and choice when it comes to compulsory benefits. All permanent non-sales employees, irrespective of level, receive a guaranteed component of remuneration, consisting of:

- Basic salary
- Compulsory benefits (medical aid, provident and pension funds, group life cover).

### Employees select:

- The Discovery medical aid plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependent on their spouse's scheme).
- Their contribution level to the provident fund, ranging from 7.5% to 20% of their guaranteed package or base pay.
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.
- Their compulsory pension fund contribution of at least 5% of salary.

Discovery targets the market-median guaranteed pay level per role. However guaranteed pay can be:

- Above the median to attract top talent, particularly in scarce and critical skill areas, and to retain top talent.
- Below the median for people who are part-qualified or new to their role and still need to grow fully into the role.

Discovery engages the services of independent external service providers to benchmark salaries paid to employees against salaries paid by other financial services companies in South Africa. Benchmarking exercises are completed at least annually to keep track of market movements, and these consider factors such as industry, company size (revenue, profit, number of employees), and availability of skills. Some of our roles are unique, so market data is used to assist in making pay decisions but is not the only reason we pay employees as we do.

### Annual salary review process

The annual salary review process provides an opportunity to adjust salaries in line with the market and takes place between April and June each year, with salary increases effective from 1 July. The Discovery Group Remuneration Committee (D-ERC) recommends the overall percentage increase to the salary bill, taking into account benchmarking to understand market trends, particularly scarce and critical skills, changes to the national cost of living, and business performance and affordability. Performance is primarily rewarded through incentive structures, not through the salary increase process. An employee must be employed for a minimum of three months to be part of the review process, and any increase may be moderated for length of service and time in the role. This three-month exclusion may not apply in certain instances.

The DAC approves the annual increase parameters for Bank employees, taking cognisance of any specific trends in the banking sector as well as the D-ERC decision.

Interim increases may be awarded during the year at the discretion of senior management under the following circumstances:

- Successful internal recruitment into a higher-paying role
- Achieving a higher qualification, for certain skills
- Promotion to a higher level
- Equity considerations to correct unjustifiable income differentials
- Retention of key individuals

## Remuneration / CONTINUED

### 2 Monthly performance-based pay

'Pay-for-performance' is at the heart of our pay philosophy, and as a result, most permanent employees also have an opportunity to earn performance-based pay. Employees are encouraged to strive to exceed their objectives while having regard for good regulatory practices and appropriate risk management.

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- Guaranteed monthly salary
- Performance-based pay.

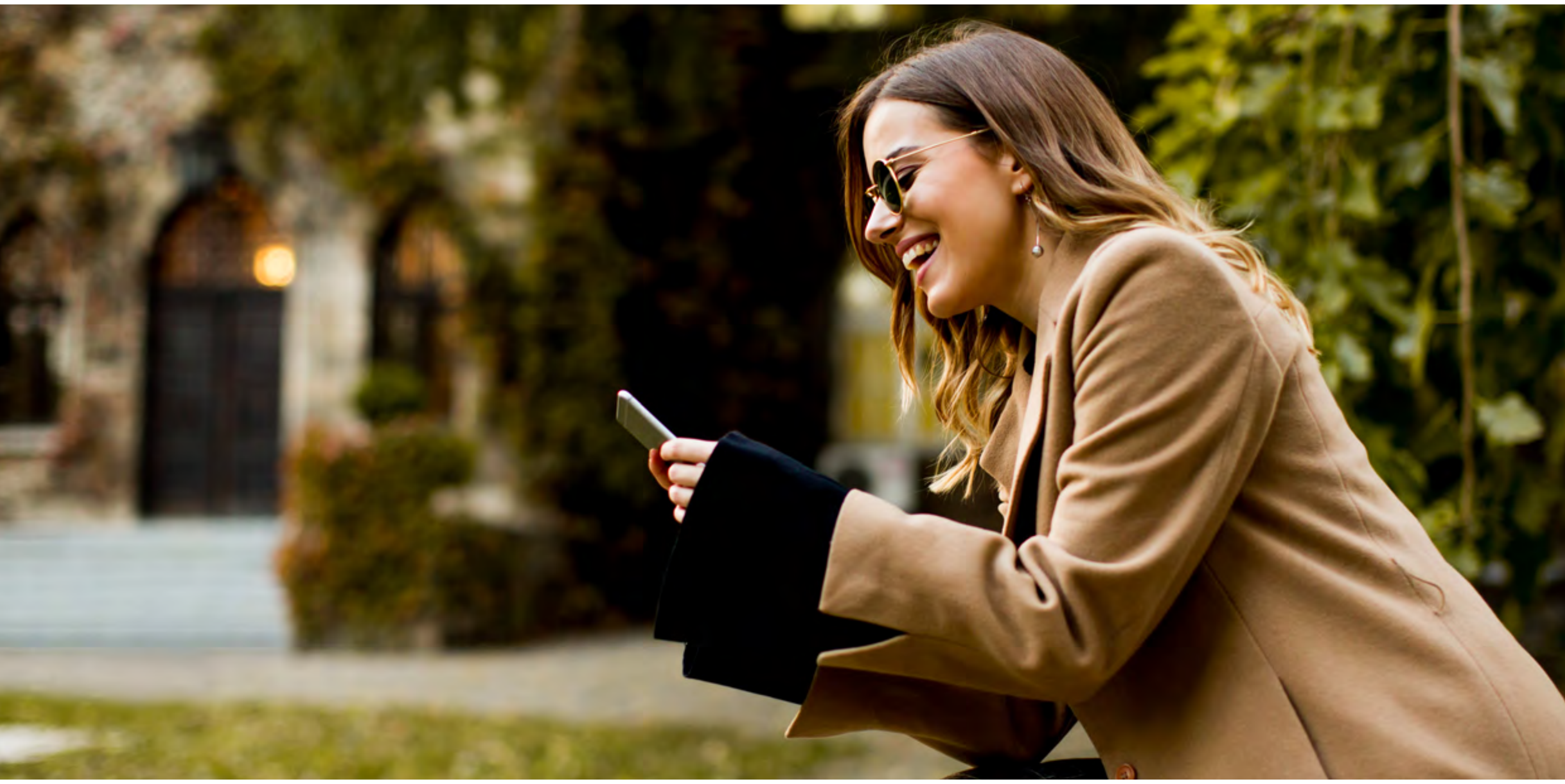
The performance element ensures alignment between company goals and individual performance and allows top performers to significantly enhance their earnings. Targets are reviewed and adjusted as required at the discretion of management to drive continuous improvement in the areas concerned.

Using this model, top-performers earn well above the market benchmark for the role and are thus retained and motivated to keep performing.

### 3 Short-term incentive schemes

Short-term incentive schemes are designed to encourage and reward performance at every level. Different business areas run different schemes based on business priorities, and, therefore, scheme structures (pay out percentages, pay periods, and calculations) vary by scheme. Typically, short-term schemes span six to 12 months. To receive payment, an employee must have been employed for a minimum of three months in the period and have not resigned at the time of payout. All schemes are performance-based and reward delivery against pre-agreed stretch targets, which may be at an individual, team or Bank or Group level:

- At staff and team-leader levels, payments may be bi-annual or annual, depending on the scheme. Measures are set by management and aligned with business goals and continuous improvement.
- Sales teams participate in production-related incentives applicable to their roles.
- At Manager, Divisional Manager and equivalent specialist levels, employees participate in the bi-annual management incentive scheme, which considers both personal and business performance against objectives and pays a cash award (STI) on a bi-annual basis.



## 4 Single incentive plan (SIP): Implemented from financial year 2022

Executive Management participates in the Group Single Incentive Plan (SIP), which is based on a single on-target percentage of the guaranteed total package, which is split into a cash award (short-term incentive) and a deferred award (long-term incentive). The on-target percentages and percentage splits for the Single Incentive vary per level and job family.

### Background

The Single Incentive Plan (SIP) was introduced to address the complexity of having multiple different short and long-term incentives operating under different rules and to improve line-of-sight for participants.

### General principles

1. Employees must be in service for a minimum of 3 months in each cycle to be eligible, and should still be in service, and not serving notice to be eligible for any payment under the SIP. If any portion of the award is deferrable, this will be forfeited in terms of the applicable rules of the scheme.
2. Fixed-term contractors may also be awarded incentives on the basis of the SIP, or on terms specified in their contracts of employment.
3. The SIP combines all short-term incentive schemes and the Discovery share scheme into one single scheme and is subject to one performance multiplier, calculated at the end of the financial year, made up of two elements:
   - Group performance – weighted 50% for Directors, 30% for other participants.
   - Business or individual performance (average of H1 and H2 performance) – weighted 50% for Directors, 70% for other participants).
4. The annual SIP formula is as follows:

   | |
   |---|
   | Annual SIP value = Annual CTC x SIP % x performance multiplier (Group, Bank and individual) |

   The annual SIP value is then split between a cash portion and a deferred portion, with the mix determined by level of management.
5. The cash award will be settled annually for the Executive Directors, and for other participants every six months, with the initial payment being a drawdown based on half-year (H1) performance (end of December). The final payment will be based on a true-up of annualised Group, Bank and individual performance (end of June).
6. The drawdown will be a percentage of the cash portion only.

### Deferred award (LTI) principles

- The deferred award will be made on an annual basis, based on full year performance once the overall single incentive allocations have been determined. Deferred awards will be settled in Discovery shares, which will be transferred to the employee on vesting once the tax due has been paid.
- The five-day volume-weighted average price (VWAP) on 30 September of each year will be used to determine the number of shares awarded, and the value of the shares at vesting for tax purposes.
- The governance provisions for the deferred awards will be governed by provisions of the Group Share Plan, as contained in the Discovery Long-term Incentive Plan Trust, as approved by the JSE on 12 October 2018.
- The deferred awards will vest one-third per annum in year 3, 4 and 5 for the Group Directors; and one-third per annum in year 1, 2 and 3 for other participants. No further performance conditions will apply for the vesting of the shares, except the effluxion of time.
- In the case of termination of employment due to resignation, dismissal or abscondment, all unvested awards are forfeited.

Both the Management Incentive Scheme and the Single Incentive Plan are linked to business unit and individual performance

The Bank scorecard and targets are proposed by management on a bi-annual basis and approved by the Director Affairs Committee. Typically, the scorecard will include the following elements:

- Profit/loss
- Business growth (new business)
- Client service perception
- Innovation and product development
- Employment equity

Each measure has a weighting which is applied to the score, and a minimum target below which the score for that measure will be zero. The sum of the weighted scores results in the overall Bank score.

## 4 Single incentive plan (SIP): Implemented from financial year 2022 *continued*

The Single Incentive Plan is also linked to Group's performance. The Group scorecard is set on an annual basis and includes both financial (profit, HEPS, ROE and revenue) and non-financial measures (customers, ESG, strategy and people).

**Historical LTIP awards (made up to 2021): Vesting and vesting conditions**

The LTIP allocations up to and including 2021 will continue to vest in three equal tranches from the third to the fifth anniversary of the date of award. These historical awards are a combination of cash settled, phantom awards linked to the Discovery share price, and equity settled awards.

Vesting of a portion of the awards is subject to performance conditions, which are measured on a compound basis over the full life of the award. The balance is not subject to specific performance but is largely aimed at retention and remaining aligned with the market from a total pay perspective. These awards remain subject to share price increases and decreases.

## 5 Discovery Bank long-term incentive plan (equity settled)

Discovery created a bank-specific long-term incentive plan (Bank-LTIP) to enable members of the executive team and other key individuals to share in the success of the business while ensuring their long-term retention. Participants will share in the 'value created', which references the growth in the value of the Bank's business after capital invested and interest, thereby ensuring alignment of participants' interests with the longer-term strategic goals of the Bank. The value created will be settled in Discovery Limited shares.

## 6 Malus and clawback

Following shareholder feedback and in light of best practice, the D-ERC and DAC have the discretion, where defined trigger events have taken place, to invoke malus (pre-vesting forfeiture) or clawback (post-vesting forfeiture). The malus and clawback provisions and the application thereof are governed by the Discovery malus and clawback policy, which is a related policy to the Discovery remuneration policy. Trigger events include the following:

- Material misstatement of financial results
- Fraud, dishonestly, or gross misconduct
- Events or behaviours that have caused reputational damage to Discovery.

All bonus schemes are non-contractual and discretionary and may be changed by the DAC with input from the Discovery Remuneration Committees. To qualify for payment for any incentive, a participant must be employed and not have resigned or been terminated on the date of payment.

# 04

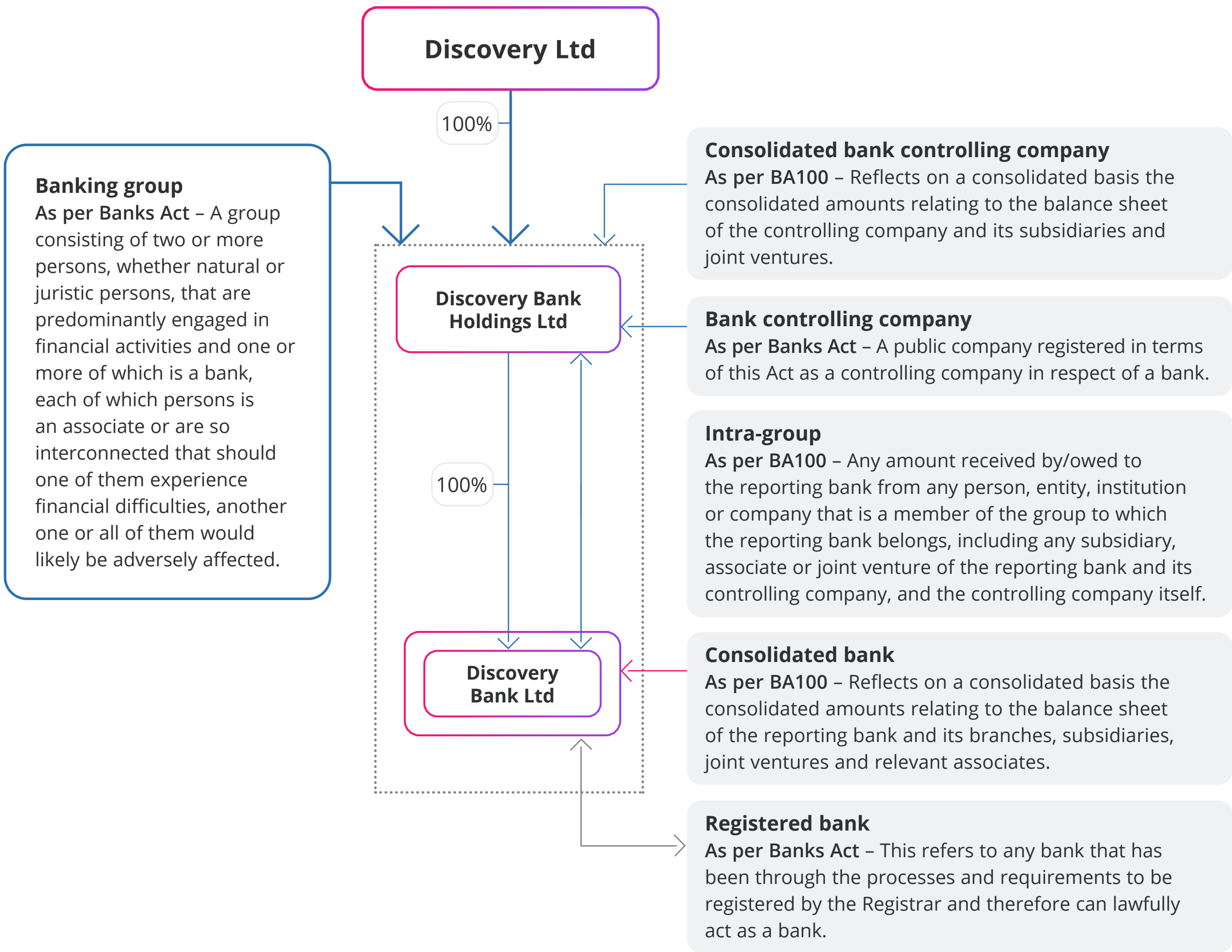
# **Quantitative tables** and templates

# Quantitative tables and templates

During the past twelve months, the Bank has continued to bring new products to the market, taking us closer to our goal of building the best bank in the country. The liquidity position remains strong and the retail assets book has grown as a result of product enhancements and new product offerings. The team has made astounding progress which is reflected in the numbers presented in the tables.

The ratios provided in the subsequent tables continue to normalise and provide more meaningful insight into the Bank's position and performance. This is expected to further calibrate with time as a more comparable historical performance is gained. Furthermore, table KM1 and OV1 are reported on a consolidated level whereas the remaining tables are all reported on a Bank level.

### The legal entity structure of Discovery Bank



# Overview of Risk Management and Risk-Weighted Assets

## 1.1 KM1: Key metrics

This section provides information on Discovery's prudential regulatory metrics. Metrics include Discovery Bank's available capital and ratios, risk-weighted assets, leverage ratio, liquidity coverage ratios and net stable funding ratios. These metrics are presented at a Discovery Bank Holdings Limited Group level. Discovery Bank adopted IFRS 9 on 1 July 2017 and the figures presented include the effects of this.

| | R'000 | As at 30 June 2022 | As at 31 March 2022 | As at 31 December 2021 | As at 30 September 2021 | As at 30 June 2021 |
|---|---|---|---|---|---|---|
| **Available capital (amounts)** | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 993 529 | 942 179 | 938 421 | 860 712 | 858 200 |
| 1a | Fully loaded ECL accounting model | 0 | 0 | 0 | 0 | 0 |
| 2 | Tier 1 | 993 529 | 942 179 | 938 421 | 860 712 | 858 200 |
| 2a | Fully loaded ECL accounting model Tier 1 | 0 | 0 | 0 | 0 | 0 |
| 3 | Total capital | 1 045 277 | 992 249 | 986 795 | 906 925 | 905 085 |
| 3a | Fully loaded ECL accounting model total capital | 0 | 0 | 0 | 0 | 0 |
| **Risk-weighted assets (amounts)** | | | | | | |
| 4 | Total risk-weighted assets (RWA) | 5 932 529 | 5 527 606 | 5 471 899 | 5 269 022 | 4 983 408 |
| **Risk-based capital ratios as a percentage of RWA** | | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 16.746% | 17.045% | 17.149% | 16.335% | 17.221% |
| 5a | Fully loaded ECL accounting model Common Equity Tier 1(%) | .000% | .000% | .000% | .000% | .000% |
| 6 | Tier 1 ratio (%) | 16.746% | 17.045% | 17.149% | 16.335% | 17.221% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | .000% | .000% | .000% | .000% | .000% |
| 7 | Total capital ratio (%) | 17.618% | 17.951% | 18.033% | 17.211% | 18.161% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | .000% | .000% | .000% | .000% | .000% |
| **Additional CET1 buffer requirements as a percentage of RWA** | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.500% | 2.500% | 2.500% | 2.500% | 2.500% |
| 9 | Countercyclical buffer requirement (%) | .000% | .000% | .000% | .000% | .000% |
| 10 | Bank G-SIB and/or D-SIB additional requirements (%) | .000% | .000% | .000% | .000% | .000% |
| 11 | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10) | 2.500% | 2.500% | 2.500% | 2.500% | 2.500% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 5.245% | 5.545% | 6.649% | 5.835% | 6.721% |

Overview of Risk Management and Risk-Weighted Assets / continued

### 1.1 KM1: Key metrics / continued

| R'000 | As at 30 June 2022 | As at 31 March 2022 | As at 31 December 2021 | As at 30 September 2021 | As at 30 June 2021 |
|---|---|---|---|---|---|
| **Basel III leverage ratio** | | | | | |
| 13 Total Basel III leverage ratio exposure measure | 13 792 670 | 13 380 536 | 13 068 892 | 12 232 561 | 11 600 193 |
| 14 Basel III leverage ratio (%) (row 2; row 13) | 7.203% | 7.041% | 7.181% | 7.036% | 7.398% |
| 14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a; row13) | 0 | 0 | 0 | 0 | 0 |
| **Liquidity Coverage Ratio** | | | | | |
| 15 Total HQLA | 5 289 626 | 4 740 711 | 4 869 200 | 3 956 990 | 3 850 497 |
| 16 Total net cash outflow | 203 985 | 180 906 | 168 966 | 149 356 | 155 828 |
| 17 LCR ratio (%) | 2 668% | 2 621% | 2 886% | 2 651% | 2 707% |
| **Net Stable Funding Ratio** | | | | | |
| 18 Total available stable funding | 17 893 063 | 17 035 779 | 16 684 768 | 15 768 475 | 15 156 473 |
| 19 Total required stable funding | 10 624 709 | 10 197 501 | 9 927 705 | 9 539 418 | 8 971 748 |
| 20 NSFR ratio | 168% | 167% | 168% | 165% | 169% |

Key metrics are monitored daily and incorporated as part of the early warning indicators (EWI) to ensure our liquidity and capital position remains adequate.

Risk-weighted assets (RWA) are calculated according to the Basel Framework, and Discovery Bank applies the following capital measurement approaches:

- Credit risk: The Standardised Approach (SA)
- Operational risk: The Basic Indicator Approach (BIA)
- Market risk: The Standardised Approach (SA) using Building Block method

All regulatory ratios continue to exceed minimum requirements.

Overview of Risk Management and Risk-Weighted Assets / continued

### 1.2 OV1: Overview of RWA

This section provides on overview of the Risk-Weighted Assets of Discovery Bank Limited and Discovery Bank Holdings Limited Group.

| | | DISCOVERY BANK LIMITED | | | DISCOVERY BANK HOLDINGS LIMITED | | |
|---|---|---|---|---|---|---|---|
| | | RWA | | Minimum capital requirement | RWA | | Minimum capital requirement |
| | **R'000** | As at 30 June 2022 | As at 31 March 2022 | As at 30 June 2022 | As at 30 June 2022 | As at 31 March 2022 | As at 30 June 2022 |
| 1 | **Credit risk (excluding counterparty credit risk) (CCR)** | **4 615 053** | **4 557 953** | **530 731** | **4 615 052** | **4 557 952** | **530 731** |
| 2 | Of which standardised approach (SA) | 4 615 053 | 4 557 953 | 530 731 | 4 615 052 | 4 557 952 | 530 731 |
| 3 | Of which: foundation internal ratings-based (F-IRB) approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Of which: supervisory slotting approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | Of which: advanced internal ratings-based (A-IRB) approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | **Counterparty credit risk (CCR)** | **5 396** | **19 728** | **621** | **5 396** | **19 728** | **621** |
| 7 | Of which standardised approach for counterparty credit risk (SA-CCR) | 5 396 | 19 728 | 621 | 5 396 | 19 728 | 621 |
| 8 | Of which internal model method (IMM) | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Of which: other CCR | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | **Credit valuation adjustment (CVA)** | **3 066** | **11 209** | **353** | **3 066** | **11 209** | **353** |
| 11 | Equity positions under the simple risk weight approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Equity investments in funds – look-through approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Equity investments in funds – mandate-based approach | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Equity investments in funds – fall-back approach | 0 | 0 | 0 | 0 | 0 | 0 |

Overview of Risk Management and Risk-Weighted Assets / continued

### 1.2 OV1: Overview of RWA / continued

| R'000 | DISCOVERY BANK LIMITED | | | DISCOVERY BANK HOLDINGS LIMITED | | |
|---|---|---|---|---|---|---|
| | RWA | | Minimum capital requirement | RWA | | Minimum capital requirement |
| | As at 30 June 2022 | As at 31 March 2022 | As at 30 June 2022 | As at 30 June 2022 | As at 31 March 2022 | As at 30 June 2022 |
| 15 **Settlement risk** | **0** | **0** | **0** | **0** | **0** | **0** |
| 16 Securitisation exposures in banking book | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 Of which: securitisation internal ratings-based approach (SEC-IRBA) | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA) | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 Of which: securitisation standardised approach (SEC-SA) | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 **Market risk** | **40 518** | **25 903** | **4 660** | **40 518** | **25 903** | **4 660** |
| 21 Of which standardised approach (SA) | 40 518 | 25 903 | 4 660 | 40 518 | 25 903 | 4 660 |
| 22 Of which internal model approaches (IMA) | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 Capital charge for switch between trading book and banking book | 0 | 0 | 0 | 0 | 0 | 0 |
| 24 **Operational risk** | **1 015 164** | **671 079** | **116 744** | **1 015 164** | **671 079** | **116 744** |
| 25 Amounts below the thresholds for deduction (subject to 250% risk weight) | 252 610 | 240 988 | 29 050 | 253 333 | 241 735 | 29 133 |
| 26 Floor adjustment | 0 | 0 | 0 | 0 | 0 | 0 |
| 27 **Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)** | **5 931 807** | **5 526 860** | **682 158** | **5 932 529** | **5 527 606** | **682 241** |

The Market risk RWA increased quarter on quarter as a result of the uptake and growth of the FX product offering launched in January 2022. The CVA and CCR decrease relates to the derivatives that are used to hedge the price risk on the Discovery Ltd (JSE:DSY) share in respect of the Bank's phantom staff share scheme incentive programmes. From March till June the share price has dropped and therefore the movement in RWA. Increase in Operational Risk is as a result of an update to the 3 year average gross income calculation. Minimum capital required is calculated using the SARB mandated minimum for a South African local bank.

## Composition of Capital and Total loss absorbing capacity (TLAC) disclosure

### CC1: Composition of regulatory capital

| R'000 | | As at 30 June 2022 |
|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 7 690 289 |
| 2 | Retained earnings | (2 940 369) |
| 3 | Accumulated other comprehensive income (and other reserves) | 248 703 |
| 4 | Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) | 0 |
| 5 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) | 0 |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** | **4 998 623** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |
| 7 | Prudential valuation adjustments | 0 |
| 8 | Goodwill (net of related tax liability) | 2 416 821 |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 491 293 |
| 10 | Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability) | 1 080 065 |
| 11 | Cash-flow hedge reserve | 0 |
| 12 | Shortfall in provisions for expected losses | 0 |
| 13 | Securitisation gain on sale | 0 |
| 14 | Gains and losses due to changes in own credit risk on fair-valued liabilities | 0 |
| 15 | Defined-benefit pension fund net assets | 0 |
| 16 | Investments in own shares (if not already netted-off paid-in capital on the reported balance sheet) | 0 |
| 17 | Reciprocal cross-holdings in common equity | 0 |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | 0 |
| 19 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | 0 |
| 20 | Mortgage servicing rights (amount above 10% threshold) | 0 |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | 20 090 |
| 22 | Amount exceeding the 15% threshold | 0 |
| 23 | Of which: significant investments in the common stock of financials | 0 |
| 24 | Of which: mortgage servicing rights | 0 |
| 25 | Of which: deferred tax assets arising from temporary differences | 101 044 |
| 26 | National specific regulatory adjustments | 0 |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | 0 |
| 28 | **Total regulatory adjustments to Common Equity Tier 1** | **4 008 269** |
| 29 | **Common Equity Tier 1 capital (CET1)** | **990 354** |

## Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

### CC1: Composition of regulatory capital / continued

| R'000 | | As at 30 June 2022 |
|---|---|---|
| **Additional Tier 1 capital: instruments** | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | 0 |
| 31 | of which: classified as equity under applicable accounting standards | 0 |
| 32 | of which: classified as liabilities under applicable accounting standards | 0 |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | 0 |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | 0 |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | 0 |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | **0** |
| **Additional Tier 1 capital: regulatory adjustments** | | |
| 37 | Investments in own Additional Tier 1 instruments | 0 |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | 0 |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) | 0 |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | 0 |
| 41 | National specific regulatory adjustments | 0 |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | 0 |
| 43 | **Total regulatory adjustments to Additional Tier 1 capital** | **0** |
| 44 | **Additional Tier 1 capital (AT1)** | **0** |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **990 354** |
| **Tier 2 capital: instrument and provisions** | | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | 0 |
| 47 | Directly issued capital instruments subject to phase-out from Tier 2 | 0 |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 0 |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | 0 |
| 50 | Provisions | 51 748 |
| 51 | **Tier 2 capital before regulatory adjustments** | **51 748** |

## Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

### CC1: Composition of regulatory capital / continued

| | R'000 | As at 30 June 2022 |
|---|---|---|
| | **Tier 2 capital : regulatory adjustments** | |
| 52 | Investments in own Tier 2 instruments | 0 |
| 53 | Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities | 0 |
| 54 | Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) | 0 |
| 54a | Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only) | 0 |
| 55 | Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | 0 |
| 56 | **National-specific regulatory adjustments** | **0** |
| 57 | **Total regulatory adjustments to Tier 2 capital** | **0** |
| 58 | **Tier 2 capital (T2)** | **51 748** |
| 59 | **Total capital (TC = T1 + T2)** | **1 042 102** |
| 60 | **Total risk-weighted exposure** | **5 931 807** |
| | **Capital ratios and buffers** | |
| 61 | **Common Equity Tier 1 (as a percentage of risk-weighted assets)** | **16.696%** |
| 62 | **Tier 1 (as a percentage of risk-weighted assets)** | **16.696%** |
| 63 | **Total capital (as a percentage of risk-weighted assets)** | **17.568%** |
| 64 | **Institution-specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk-weighted assets)** | **7.000%** |
| 65 | of which: capital conservation buffer requirement | 2.500% |
| 66 | of which: bank-specific countercyclical buffer requirement | .000% |
| 67 | **of which: G-SIB buffer requirement** | **.000%** |
| 68 | **Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements** | **5.196%** |
| | **National minima (if different from Basel 3)** | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum) | 5.000% |
| 70 | National Tier 1 minimum ratio (if different from Basel III minimum) | 6.750% |
| 71 | National total capital minimum ratio (if different from Basel III minimum) | 9.000% |
| | **Amounts below the threshold for deductions (before risk weighting)** | |
| 72 | Non-significant investments in the capital of other TLAC liabilities of other financial entities | 0 |
| 73 | Significant investments in the common stock of financial entities | 0 |
| 74 | Mortgage servicing rights (net of related tax liability) | 0 |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) | 101 044 |

## Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

### CC1: Composition of regulatory capital / continued

| R'000 | | As at 30 June 2022 |
|---|---|---|
| **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of the cap) | 224 554 |
| 77 | Cap on inclusion of provisions in Tier 2 under the standardised approach | 51 748 |
| 78 | Provisions or credit impairments eligible for inclusion in Tier 2 in respect of exposures are subject to an internal ratings-based approach (prior to application of the cap) | 0 |
| 79 | Cap for inclusion of provisions or credit impairments in Tier 2 under an internal ratings-based approach | 0 |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)** | | |
| 80 | *Current cap on CET1 instruments subject to phase-out arrangements* | 0 |
| 81 | *Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)* | 0 |
| 82 | *Current cap on AT1 instruments subject to phase-out arrangements* | 0 |
| 83 | *Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)* | 0 |
| 84 | *Current cap on T2 instruments subject to phase out arrangements* | 0 |
| 85 | *Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)* | 0 |

## Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

### CC2: Reconciliation of regulatory capital to balance sheet

| R'000 | | Balance sheet as in published financial statements<br>As at 30 June 2022 | Balance sheet under regulatory scope of consolidation<br>As at 30 June 2022 |
|---|---|---|---|
| **Assets** | | | |
| 1 | Cash and balances at central banks | 1 796 793 | 1 796 793 |
| 2 | Short-term negotiable securities | 3 486 202 | 3 486 202 |
| 3 | Derivative assets | 28 | 28 |
| 4 | Loans and advances to customers | 3 943 532 | 3 943 532 |
| 5 | Loans and advances to banks | 765 473 | 765 473 |
| 6 | Available for sale financial assets | 0 | 0 |
| 7 | Interest in subsidiaries | 0 | 0 |
| 8 | Interest in associates | 0 | 0 |
| 9 | Intangible assets | 3 015 645 | 3 015 645 |
| 10 | Current income tax assets | 0 | 0 |
| 11 | Deferred income tax assets | 1 093 668 | 1 093 668 |
| 12 | Property and equipment | 0 | 0 |
| 13 | Other assets | 475 222 | 475 222 |
| 14 | **Total assets** | **14 576 563** | **14 576 563** |
| **Liabilities** | | | |
| 15 | Deposits and current accounts | 10 881 011 | 10 881 011 |
| 16 | Derivative financial instruments | 10 601 | 10 601 |
| 17 | Provisions and other liabilities | 405 391 | 405 391 |
| 18 | Current income tax liabilities | 0 | 0 |
| 19 | Deferred income tax assets | 0 | 0 |
| 20 | **Total liabilities** | **11 297 003** | **11 297 003** |
| 21 | **Equity** | | |
| 22 | Share capital and premium | 7 690 289 | 7 690 289 |
| 23 | Accumulated profit/(loss) | (2 940 369) | (2 940 369) |
| 24 | Other reserves | 248 703 | 248 703 |
| 25 | **Total equity** | **4 998 623** | **4 998 623** |

| Table 1 | 30 June 2022 |
|---|---|
| Common Equity Tier 1 capital | 0 |
| Share capital and premium | 7 690 289 |
| Adjusted retained earnings | (2 940 369) |
| Retained earnings | (2 940 369) |
| Unappropriated profits | 0 |
| **Total** | **4 749 920** |
| Share-based payment reserve | 248 703 |
| Other reserves | 0 |
| **Total** | **4 998 623** |

Composition of Capital and Total loss absorbing capacity (TLAC) disclosure / continued

## CCA: Main features of regulatory capital instruments, and for G-SIBs and other TLAC-eligible instruments

| As at 30 June 2022 | | Ordinary shares (including share premium) |
|---|---|---|
| 1 | Issuer | Discovery Bank Limited |
| 2 | Unique identifier (for example, CUSIP, ISIN or Bloomberg identifier for private placement) | n/a |
| 3 | Governing law(s) of the instrument | South Africa |
| 3a | Means by which the enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law) | n/a |
| 4 | Transitional Basel III rules | CET 1 |
| 5 | Post-transitional Basel III rules | CET 1 |
| 6 | Eligible at solo/group/group and solo | Group and solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | 7 690 |
| 9 | Par value of instrument | R1.00 per share |
| 10 | Accounting classification | IFRS: Equity |
| 11 | Original date of issuance | Thursday, May 19, 2016 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No maturity |
| 15 | Optional call date, contingent call dates and redemption amount | n/a |
| 16 | Subsequent call dates, if applicable | n/a |
| **Coupons/dividends** | | |
| 17 | Fixed or floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | n/a |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of a step-up or other incentive to redeem | n/a |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | n/a |
| 24 | If convertible, conversion trigger(s) | n/a |
| 25 | If convertible, fully or partially | n/a |
| 26 | If convertible, conversion rate | n/a |
| 27 | If convertible, mandatory or optional conversion | n/a |
| 28 | If convertible, specify the instrument type convertible into | n/a |
| 29 | If convertible, specify the issuer of instrument it converts into | n/a |
| 30 | Writedown feature | n/a |
| 31 | If writedown, writedown trigger(s) | n/a |
| 32 | If writedown, full or partial | n/a |
| 33 | If writedown, permanent or temporary | n/a |
| 34 | If temporary writedown, description of writeup mechanism | n/a |
| 34a | Type of subordination | 0 |
| 35 | Position in the subordination hierarchy in liquidation (specify instrument type immediately senior to the instrument in the insolvency creditor hierarchy of the legal entity concerned). | Any amounts due and payable to creditors |
| 36 | Non-compliant transitioned features | n/a |
| 37 | If yes, specify non-compliant features | n/a |

## LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

| | | | Carrying values of items | | | | | |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2022 R'000** | Carrying values as reported in published financial statements and under the scope of regulatory consolidation | Carrying values under the scope of regulator consolidation | Subject to the credit risk framework | Subject to the counterparty credit risk framework | Subject to the securitisation framework | Subject to the market-risk framework | Subject to the other risk frameworks | Not subject to capital requirements or subject to deduction from capital |
| 1 Cash and balances at central banks | 2 529 203 | 1 796 793 | 1 796 793 | 0 | 0 | 0 | 0 | 0 |
| 2 Short-term negotiable securities | 5 205 265 | 5 205 265 | 5 205 265 | 0 | 0 | 0 | 0 | 0 |
| 3 Derivative assets | 28 | 28 | 0 | 28 | 0 | 0 | 0 | 0 |
| 4 Loans and advances to customers | 3 943 532 | 4 709 005 | 4 709 005 | 0 | 0 | 40 518 | 0 | 0 |
| 5 Available for sale financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 Interest in subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 Interest in associates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 Intangible assets | 3 015 645 | 3 015 645 | 0 | 0 | 0 | 0 | 0 | 3 015 645 |
| 9 Current income tax assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 Deferred income tax assets | 1 093 668 | 1 093 668 | 121 134 | 0 | 0 | 0 | 0 | 972 534 |
| 11 Property and equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 Other assets | 563 899 | 475 222 | 0 | 0 | 0 | 0 | 475 222 | 0 |
| 13 **Total assets** | **16 351 240** | **16 295 626** | **11 832 197** | **28** | **0** | **40 518** | **475 222** | **3 988 179** |

## LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories / continued

| As at 30 June 2022 R'000 | Carrying values as reported in published financial statements and under the scope of regulatory consolidation | Carrying values under the scope of regulator consolidation | Carrying values of items | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Subject to the credit risk framework | Subject to the counterparty credit risk framework | Subject to the securitisation framework | Subject to the market-risk framework | Subject to the other risk frameworks | Not subject to capital requirements or subject to deduction from capital |
| **Liabilities** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 Deposits and current accounts | 10 881 011 | 10 881 011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 Derivative financial instruments | 10 601 | 10 601 | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 Provisions and other liabilities | 461 005 | 405 391 | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 Current income tax liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 Deferred income tax assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 **Total liabilities** | **11 352 617** | **11 297 003** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Equity** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 Share capital and premium | 7 690 289 | 7 690 289 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 Accumulated profit/(loss) | (2 940 369) | (2 940 369) | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 Other reserves | 248 703 | 248 703 | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 **Total equity** | **4 998 623** | **4 998 623** | **0** | **0** | **0** | **0** | **0** | **0** |

### Commentary for deltas:

1 & 4. Interbank operational deposits are treated as 'Cash and Cash Equivalents' from an IFRS perspective in the Annual Financial Statements.

These deposits are categorised as 'Other loans & advances' in the Banks Act returns.

12 & 16. Intercompany balances are disclosed on a gross basis in the Annual Financial Statements, despite the legal right to set-off, and the net presentation on the Banks Act returns.

Other minor differences are the result of rounding off for reporting purposes.

## LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| | | Items subject to | | | | |
|---|---|---|---|---|---|---|
| **As at 30 June 2022 R'000** | Total | Credit-risk framework | Securitisation framework | Counterparty credit-risk framework | Market-risk framework | Other |
| Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 14 576 563 | 10 113 134 | 0 | 28 | 0 | 475 222 |
| Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | 11 297 003 | 0 | 0 | 0 | 0 | |
| **Total net amount under regulatory scope of consolidation** | **3 284 824** | **10 113 134** | **0** | **28** | **0** | **475 222** |
| Off-balance sheet amounts | 6 365 126 | 1 273 025 | 0 | 0 | 0 | |
| **Exposure amounts considered for regulatory purposes** | **9 649 950** | **11 386 159** | **0** | **28** | **0** | **475 222** |

## Leverage Ratio

### LR1: Summary comparison of accounting assets versus leverage ratio exposure measure (simple consolidated without change)

This table reconciles the total assets as presented in the financial statements to the leverage ratio exposure measure as reported at 30 June 2022.

| R'000 | | As at 30 June 2022 |
|---|---|---|
| 1 | Total consolidated assets as per published financial statements | 16 698 820 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | 0 |
| 3 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | 0 |
| 4 | Adjustments for derivative financial instruments | 7 445 |
| 5 | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | 0 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 1 273 025 |
| 7 | Other adjustments | (4 186 909) |
| 8 | **Leverage ratio exposure measure** | **13 792 381** |

Leverage Ratio / continued

### LR2: Leverage ratio disclosure template (simple consolidation without change)

The purpose of the leverage ratio disclosure is to provide a detailed breakdown of the components of the leverage ratio denominator.

| R'000 | | As at 30 June 2022 | As at 31 March 2022 |
|---|---|---|---|
| **On-balance sheet exposures** | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)) | 16 520 152 | 16 128 349 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (4 008 269) | (3 992 166) |
| 3 | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)** | **12 511 883** | **12 136 183** |
| **Derivative exposures** | | | |
| 4 | Replacement cost associated with all derivatives transactions (where applicable, net of eligible cash variation margin and/or with bilateral netting) | 28 | 1 928 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 7 445 | 12 393 |
| 6 | Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the operative accounting framework | 0 | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 | 0 |
| 11 | **Total derivative exposures (sum of rows 4 to 10)** | **7 473** | **14 321** |
| **Securities financing transaction exposures** | | | |
| 12 | Gross SFT assets (with no recognition of netting) after adjusting for asle accounting transactions | 0 | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 | 0 |
| 14 | CCR exposure for SFT assets | 0 | 0 |
| 15 | Agent transaction exposures | 0 | 0 |
| 16 | **Total securities financing transaction exposures (sum of rows 12 to 15)** | 0 | 0 |
| **Other off-balance sheet exposures** | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 6 365 125 | 6 148 670 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (5 092 100) | (4 918 936) |
| 19 | **Off-balance sheet items (sum of row 17 and 18)** | **1 273 025** | **1 229 734** |
| **Capital and total exposures** | | | |
| 20 | Tier 1 capital | 990 354 | 938 895 |
| 21 | **Total exposures (sum of rows 3,11,16 and 19)** | **13 792 381** | **13 380 238** |
| **Leverage ratio** | | | |
| 22 | Basel III leverage ratio | 7.17% | 7.01% |

## Liquidity

### LIQ1: Liquidity Coverage Ratio (LCR)

Table LIQ1 shows the breakdown of Discovery Bank's expected cash outflows and cash inflows, as well as its available High-quality Liquid Assets (HQLA), as measured and defined according to the LCR standard.

| | | Current reporting period | | Previous reporting period |
|---|---|---|---|---|
| **As at 30 June 2022 R'000** | | **Total unweighted (average)** | **Total weighted (average)** | **Total weighted (average)** |
| **High-quality liquid assets (HQLA)** | | | | |
| 1 | Total HQLA | 0 | 5 289 626 | 4 740 711 |
| **Cash outflows** | | | | |
| 2 | **Retail deposits and deposits from small business customers, of which:** | **5 947 663** | **594 766** | **570 105** |
| 3 | Stable deposits | 0 | 0 | 0 |
| 4 | Less stable deposits | 5 947 663 | 594 766 | 570 105 |
| 5 | **Unsecured wholesale funding, of which:** | **788 093** | **67 044** | **3 365** |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 0 | 0 | 0 |
| 7 | Non-operational deposits (all counterparties) | 788 093 | 67 044 | 3 365 |
| 8 | Unsecured debt | 0 | 0 | 0 |
| 9 | **Secured wholesale funding** | **0** | **0** | **0** |
| 10 | **Additional requirements, of which:** | **0** | **0** | **0** |
| 11 | Outflows related to derivative exposures and other collateral requirements | 2 | 0 | 62 |
| 12 | Outflows related to loss of funding on debt products | 0 | 0 | 0 |
| 13 | Credit and liquidity facilities | 6 165 185 | 154 130 | 150 153 |
| 14 | **Other contractual funding obligations** | **0** | **0** | **0** |
| 15 | **Other contingent funding obligations** | **0** | **0** | **0** |
| 16 | **Total cash outflows** | **12 900 941** | **815 940** | **723 624** |
| **Cash inflows** | | | | |
| 17 | Secured lending (for example, reverse repos) | 0 | 0 | 0 |
| 18 | Inflows from fully performing exposures | 2 014 386 | 1 904 030 | 2 027 744 |
| 19 | Other cash inflows | 0 | 0 | 1 |
| 20 | **Total cash inflows** | **2 014 386** | **1 904 030** | **2 027 745** |

| **Total Adjusted value** | | **Total Adjusted value** | |
|---|---|---|---|
| 21 | Total HQLA | 5 289 626 | 4 740 711 |
| 22 | Total net cash outflows | 203 985 | 180 906 |
| 23 | **Liquidity Coverage Ratio (%)** | **2 668%** | **2 621%** |

## Liquidity / continued

### LIQ1: Liquidity Coverage Ratio (LCR) / continued

#### The Liquidity Coverage

The Liquidity Coverage Ratio (LCR) measures whether a bank has sufficient High-quality Liquid Assets (HQLA) to survive a significant stress scenario lasting 30 calendar days.

The LIQ1 table complies with the Pillar 3 requirements as stipulated by BCBS D400 (March 2017) and Directive 1 of 2022. The values in the table are calculated as the average of the 90-day calendar daily values over the period April to June 2022 for Discovery Bank Limited. Discovery Bank's weighted values are based on business days (excluding public holidays and weekends).

Deposits within the 30-day window are the key drivers of LCR. The weighted outflow is determined by the liabilities falling into the 30-day contractual bucket. The required HQLAs to be held are based on the characteristics of the liabilities within the 30-day bucket to set-off modelled stressed outflows.

**THE COMPOSITION OF THE HIGH-QUALITY LIQUID ASSETS (HQLA):**

The HQLA's held by Discovery Bank are Treasury Bills with a maturity profile, spread across 91, 182, 274 and 364 days, Bonds (R186 and R2023) as well as Debentures.

Liquidity / continued

## LIQ2: Net Stable Funding Ratio (NSFR)

This section provides information pertaining to Discovery Bank's Net Stable Funding Ratio (NSFR) and details of some of its components.

| | | Items subject to | | | | |
|---|---|---|---|---|---|---|
| **As at 30 June 2022 R'000** | | No Maturity | < 6 months | 6 months to < 1 year | >= 1 year | Weighted value |
| 1 | **Capital:** | **7 938 992** | **0** | **0** | **0** | **7 938 992** |
| 2 | Regulatory capital | 7 938 992 | 0 | 0 | 0 | 7 938 992 |
| 3 | Other capital instruments | 0 | 0 | 0 | 0 | 0 |
| 4 | **Retail deposits and deposits from small business customers:** | **0** | **8 327 774** | **1 010 342** | **1 238 885** | **9 643 189** |
| 5 | Stable deposits | 0 | 0 | 0 | 0 | 0 |
| 6 | Less stable deposits | 0 | 8 327 774 | 1 010 342 | 1 238 885 | 9 643 189 |
| 7 | **Wholesale funding:** | **0** | **4 010** | **0** | **300 000** | **301 404** |
| 8 | Operational deposits | 0 | 0 | 0 | 0 | 0 |
| 9 | Other wholesale funding | 0 | 4 010 | 0 | 300 000 | 301 404 |
| 10 | Liabilities with matching interdependent assets | 0 | 390 851 | 10 123 | 15 018 | 9 479 |
| 11 | Other liabilities: | 0 | 0 | 0 | 0 | 0 |
| 12 | NSFR derivative liabilities | 0 | 0 | 0 | 10 601 | 0 |
| 13 | All other liabilities and equity not included in the above categories | 0 | 390 851 | 10 123 | 4 417 | 9 479 |
| 14 | **Total ASF** | | | | | **17 893 063** |
| 15 | Total NSFR high-quality liquid assets (HQLA) | 0 | 5 496 824 | 360 380 | 1 144 855 | 273 676 |
| 16 | Deposits held at other financial institutions for operational purposes | 0 | 0 | 0 | 0 | 0 |
| 17 | Performing loans and securities: | 0 | 2 069 491 | 1 332 644 | 1 738 690 | 2 911 039 |
| 18 | Performing loans to financial institutions secured by Level 1 HQLA | 0 | 0 | 0 | 0 | 0 |
| 19 | Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions | 0 | 765 473 | 28 626 | 0 | 129 134 |
| 20 | Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which: | 0 | 1 304 018 | 1 304 018 | 1 738 690 | 2 781 905 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk | 0 | 0 | 0 | 0 | 0 |
| 22 | Performing residential mortgages, of which: | 0 | 0 | 0 | 0 | 0 |
| 23 | With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk | 0 | 0 | 0 | 0 | 0 |
| 24 | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities | 0 | 0 | 0 | 0 | 0 |
| 25 | Assets with matching interdependent liabilities | 0 | 0 | 0 | 0 | 0 |
| 26 | Other assets: | 7 121 710 | 0 | 0 | 28 | 7 121 738 |
| 27 | Physical traded commodities, including gold | 0 | 0 | 0 | 0 | 0 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | 0 | 0 | 0 | 0 | 0 |
| 29 | NSFR derivative assets | 0 | 0 | 0 | 28 | 28 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | 0 | 0 | 0 | 0 | 0 |
| 31 | All other assets not included in the above categories | 7 121 710 | 0 | 0 | 0 | 7 121 710 |
| 32 | Off-balance sheet items | 6 365 126 | 0 | 0 | 0 | 318 256 |
| 33 | **Total RSF** | | | | | **10 624 709** |
| 34 | **Net Stable Funding Ratio (%)** | | | | | **168%** |

The NSFR determines if an institution can maintain their stable funding profile when looking at their assets and off-balance sheet commitments on an ongoing basis. This ratio calculates the proportion Available Stable Funding (AFS) in liabilities over the Required Stable Funding (RFS) for the assets. Sources of available funding for Discovery Bank include share capital and client deposits.

## Credit Risk

The following tables show the credit quality of both on and off balance sheet assets and the impact of impairments as at financial year-end, as well as exposures per asset class, pre and post credit conversion factors and credit risk mitigation.

### CR1: Credit quality of assets

| As at 30 June 2022 R'000 | Gross carrying values | | | Of which: ECL accounting provisions for credit losses on SA exposure | | | |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Allowances/ impairments** | Allocated in the regulatory category of 'Specific' | Allocated in the regulatory category of 'General' | Of which: ECL accounting provisions for credit losses on IRB exposure, | Net values (a+b-c) |
| **Regulatory portfolio/risk weight** | | | | | | | |
| 1 Loans* | 196 137 | 4 588 041 | 403 194 | 178 641 | 224 554 | 0 | 4 380 984 |
| 2 Debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 Off-balance sheet exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 **Total** | **196 137** | **4 588 041** | **403 194** | **178 641** | **224 554** | **0** | **4 380 984** |

* *Loans include advances to clients and interbank advances, excluding sovereign exposures (on-balance sheet).*
** *Off-balance sheet exposures are reported gross of CRM and CCF and exclude revocable commitments.*

### CR2: Changes in stock of defaulted loans and debt securities

| R'000 | As at 30 June 2022 |
|---|---|
| 1 **Defaulted loans and debt securities at the end of the previous reporting period** | **302 003** |
| 2 Loans and debt securities that have defaulted since the last reporting period | 67 689 |
| 3 Returned to non-defaulted status | 14 604 |
| 4 Amounts written off | 42 528 |
| 5 Other changes | (116 423) |
| 6 **Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)** | **196 137** |

### CR3: Credit risk mitigation techniques – overview

| As at 30 June 2022 R'000 | Exposures unsecured: carrying amount | Exposures secured by collateral | Exposure secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposure secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposure secured by credit derivatives, of which: secured amount |
|---|---|---|---|---|---|---|---|
| 1 Loans | 4 355 984 | 25 000 | 25 000 | 0 | 0 | 0 | 0 |
| 2 Debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 **Total** | **4 355 984** | **25 000** | **25 000** | **0** | **0** | **0** | **0** |
| 4 **Of which: defaulted** | **31 464** | **0** | **0** | **0** | **0** | **0** | **0** |

**Quantitative tables** and templates / CONTINUED

Credit Risk / continued

### CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

| | | Exposures before CCF and CRM | | Exposures post-CCF and post-CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|---|
| **As at 30 June 2022 R'000** | | **On-balance sheet amount** | **Off-balance sheet amount** | **On-balance sheet amount** | **Off-balance sheet amount** | **RWA** | **RWA density** |
| 1 | **Sovereigns and their central banks** | 5 287 047 | 0 | 5 287 047 | 0 | 0 | 0 |
| 2 | Non-central government public sector entities | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Multi-lateral development banks | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Banks | 482 554 | 0 | 487 922 | 0 | 97 901 | 20 |
| 5 | Securities firms | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Corporates | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | Regulatory retail portfolios | 4 105 487 | 6 214 625 | 4 105 442 | 1 242 925 | 4 011 275 | 75 |
| 8 | Secured by residential property | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Secured by commercial real estate | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Equity | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | Past-due loans | 196 137 | 90 473 | 44 996 | 18 095 | 36 051 | 57 |
| 12 | Higher-risk categories | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Other assets | 5 287 660 | 0 | 5 287 660 | 0 | 475 222 | 9 |
| 14 | **Total** | **15 358 885** | **6 305 098** | **15 213 066** | **1 261 020** | **4 620 449*** | **28** |

* *The on-balance sheet exposures are reported gross of impairment , CCF and CRM. Off-balance sheet exposures include revocable facilities*

## Credit Risk / continued

### CR5: Standardised approach – exposures by asset classes and risk weights

| As at 30 June 2022 R'000 | Risk weight | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total credit exposure amount (post-CCF and post-CRM) |
| 1 **Sovereigns and their central banks** | 5 287 047 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 287 047 |
| 2 Non-central government public sector entities (PSEs) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 Multi-lateral development banks (MDBs) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 Banks | 0 | 0 | 482 526 | 0 | 0 | 0 | 5 396 | 0 | 0 | 487 922 |
| 5 Securities firms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 Regulatory retail portfolios | 0 | 0 | 0 | 0 | 0 | 5 348 367 | | 0 | 0 | 5 348 367 |
| 8 Secured by residential property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 Secured by commercial real estate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 Past-due loans | 0 | 0 | 0 | 0 | 57 749 | 0 | 1 671 | 3 671 | 0 | 63 090 |
| 12 Higher-risk categories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 Other assets | 1 796 793 | 0 | 0 | 0 | 0 | 0 | 475 222 | 0 | 3 015 645 | 5 287 660 |
| 14 **Total** | **7 083 840** | **0** | **482 526** | **0** | **57 749** | **5 348 367** | **482 289** | **3 671** | **3 015 645** | **16 474 086** |

## Counterparty Credit Risk

### CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

| | As at 30 June 2022 R'000 | Replace-ment cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
|---|---|---|---|---|---|---|---|
| 1 | SA-CCR (for derivatives) | 28 | 3 827 | | 1.4 | 5 396 | 5 396 |
| 2 | Internal Model Method (for derivatives and SFTs) | | | | | | |
| 3 | Simple Approach for credit risk mitigation (for SFTs) | | | | | | |
| 4 | Comprehensive Approach for credit risk mitigation (for SFTs) | | | | | | |
| 5 | VaR for SFTs | | | | | | |
| 6 | **Total** | | | | | | **5 396** |

### CCR2: Credit valuation adjustment (CVA) capital charge

| | As at 30 June 2022 R'000 | EAD post-CRM | RWA |
|---|---|---|---|
| | **Total portfolio subject to the advanced CVA capital charge** | | |
| 1 | (i) VaR component (including the 3x multiplier) | 0 | 0 |
| 2 | (ii) Stressed VaR component (Including the 3x multiplier) | 0 | 0 |
| 3 | All portfolios subject to the standardised CVA capital charge | 5 396 | 5 396 |
| 4 | **Total subject to the CVA capital charge** | **5 396** | **5 396** |

### CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights

| | As at 30 June 2022 R'000 | Risk weight | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 10% | 20% | 50% | 75% | 100% | 150% | Others | Total credit exposure amount (post-CCF and post-CRM) |
| | **Regulatory portfolio** | | | | | | | | | |
| 1 | Sovereign | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Non-central government public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Multi-lateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Banks | 0 | 0 | 482 526 | 0 | 0 | 5 396 | 0 | 0 | 487 922 |
| 5 | Securities firms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | Regulatory retail portfolio | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | Other assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | **Total** | **0** | **0** | **482 526** | **0** | **0** | **5 396** | **0** | **0** | **487 922** |

# Market Risk

## MR1: Market-risk under the standardised approach

| As at 30 June 2022<br>R'000 | | Capital charge in SA |
|---|---|---|
| 1 | General interest rate risk | 0 |
| 2 | Equity risk | 0 |
| 3 | Commodity risk | 0 |
| 4 | Foreign exchange risk | 40 518 |
| 5 | Credit spread risk – non-securitisations | 0 |
| 6 | Credit spread risk – securitisations (non-correlation trading portfolio) | 0 |
| 7 | Credit spread risk – securitisations (correlation trading portfolio) | 0 |
| 8 | Default risk – non-securitisation | 0 |
| 9 | Default risk – securitisations (non-correlation trading portfolio) | 0 |
| 10 | Default risk – securitisation (correlation trading portfolio) | 0 |
| 11 | Residual risk add-on | 0 |
| 12 | **Total** | **40 518** |

In order to provide core services to our clients, we assume negligible market risk that is quantified and monitored. The foreign exchange risk also relates to our multi-currency product launched earlier in the year.

## REM 1: Remuneration awarded during the financial year

| As at end of 30 June 2022<br>R'000 | | | Senior management | Other material risk-takers |
|---|---|---|---|---|
| **Remuneration amount** | | | | |
| 1 | Fixed Remuneration | Number of employees | 7 | 3 |
| 2 | | **Total fixed remuneration (3+5+7)** | **28 161 096** | **12 145 737** |
| 3 | | Of which: Cash based | 25 227 495 | 11 181 049 |
| 4 | | Of which: Deferred | | |
| 5 | | Of which: Shares or other share-linked instruments | | |
| 6 | | Of which: Deferred | | |
| 7 | | *Of which: Other forms | 2 933 601 | 964 687 |
| 8 | | Of which: Deferred | | |
| 9 | Variable Remuneration | Number of employees | | |
| 10 | | **Total variable remuneration (11+13+15)** | **31 650 116** | **15 243 026** |
| 11 | | Of which: Cash based | 27 046 613 | 13 609 280 |
| 12 | | Of which: Deferred | | |
| 13 | | Of which: Shares or other share-linked instruments | 4 603 503 | 1 633 746 |
| 14 | | Of which: Deferred | | |
| 15 | | Of which: Other forms | | |
| 16 | | Of which: Deferred | | |
| 17 | **Total remuneration (2 +10)**** | | **59 811 212** | **27 388 762** |

*  *Provident funds and medical aid contributions.*
** *Total as stated in the annual financial statements.*

## REM 2: Special payments

| | Guaranteed bonuses | | Sign on awards | | Severance payments | |
|---|---|---|---|---|---|---|
| **Special payments** | Number of employees | Total amount | Number of employees | Total amount | Number of employees | Total amount |
| Senior management | 0 | 0 | 0 | 0 | 0 | 0 |
| Other material risk-takers | 0 | 0 | 0 | 0 | 0 | 0 |

No special payments were made to material risk-takers or senior management during the period under review.

## REM 3: Deferred remuneration

| | A | B | C | D | E |
|---|---|---|---|---|---|
| **Deferred and retained remuneration R'000** | Total amount of outstanding deferred remuneration | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment | Total amount of amendment during the year due to ex post explicit adjustments | Total amount of amendment during the year due to ex post implicit adjustments | Total amount of deferred remuneration paid out in the financial year |
| **Senior management** | | | | | |
| Cash | | | | | |
| Shares | | | | | |
| Cash - linked instruments | 6 555 101 | 6 555 101 | 0 | 93 644 | 4 603 503 |
| Other | 41 805 051 | 41 805 051 | 0 | 410 647 | |
| **Other material risk-takers** | | | | | |
| Cash | | | | | |
| Shares | | | | | |
| Cash – linked instruments | 27 362 672 | 27 362 672 | 0 | 390 895 | 367 808 |
| Other | 43 652 893 | 43 652 893 | 0 | 494 155 | 1 265 938 |
| **Total** | **119 375 717** | **119 375 717** | **0** | **1 389 341** | **6 237 249** |

### Definitions:

Outstanding exposed to ex post adjustment of the deferred and retained remuneration is subject to direct adjustment clauses (for instance, subject to malus, clawbacks or similar reversal or downward revaluations of awards).

Outstanding exposed to ex post implicit adjustment part of the deferred and retained remuneration is subject to adjustment clauses that could change the remuneration, due to the fact that they are linked to the performance of other indicators (for instance, fluctuation in the value of shares performance or performance units).

In columns (a) and (b), the amounts at reporting date (cumulated over the last years) are expected. In columns (c) to (e), movements during the financial year are expected. While columns (c) and (d) show the movements specifically related to column (b), column (e) shows payments that have affected column (a).

# 05

# Qualitative tables

# Qualitative tables

## OVA – Bank risk management approach

| | Description | Key risk | Section in document | Page reference |
|---|---|---|---|---|
| (a) | How the business model determines and interacts with the overall risk profile (for example, the key risks related to the business model and how each of these risks is reflected and described in the risk disclosures) and how the risk profile of the bank interacts with the risk tolerance approved by the board. | Risk appetite<br>Credit risk<br>Market risk<br>Liquidity and funding risk<br>Reputational Risk<br>Strategic risk<br>Business risk<br>Capital management<br>Regulatory risk<br>Model risk<br>Operational risk | 02 Risk Management Philosophy | 20 – 42 |
| (b) | The risk governance structure: responsibilities attributed throughout the bank (for example, oversight and delegation of authority, breakdown of responsibilities by type of risk, business unit, etc.) and relationships between the structures involved in risk management processes (for example, the board of directors, executive management, separate risk committee, risk management structure, compliance function, and internal audit function). | All risk | 02 Risk Management Philosophy | |
| (c) | Channels to communicate, decline and enforce the risk culture within the bank (for example, code of conduct, manuals containing operating limits or procedures to treat violations or breaches of risk thresholds and procedures to raise and share risk issues between business lines and risk functions). | All risk | 02 Risk Management Philosophy | |
| (d) | The scope and main features of risk measurement systems. | All risk | 02 Risk Management Philosophy | |
| (e) | Description of the process of risk information reporting provided to the board and senior management, in particular, the scope and main content of reporting on risk exposure. | All risk | 02 Risk Management Philosophy | |
| (f) | Qualitative information on stress testing (for example, portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management). | Stress testing | 02 Risk Management Philosophy | |
| (g) | The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants. | ICAAP<br>Risk appetite<br>Credit risk<br>Market risk<br>Liquidity and funding risk<br>Reputational risk<br>Strategic and business risk<br>Capital management risk<br>Operational risk | 02 Risk Management Philosophy | |

## LIA – Explanations of differences between accounting and regulatory exposure amounts

| | Description | Section in document | Page reference |
|---|---|---|---|
| (a) | Banks must explain the origins of any significant differences between amounts in columns (a) and (b) in LI1. | Refer to table LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk | 63 |
| (b) | Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2. | Refer to table LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements | 63 |
| (c) | In accordance with the implementation of the guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable<br>Disclosure must include:<br>• Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used<br>• Description of the independent price verification process<br>• Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument). | Not applicable to Discovery Bank's current environment | n/a |

## LIQA – Liquidity risk management

| Description | | Key risk | Section in document | Page reference |
|---|---|---|---|---|
| (a) | Governance of liquidity risk management, including: risk tolerance, structure and responsibilities for liquidity risk management internal liquidity reporting, and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors. | Liquidity and funding risk | 02 Risk management philosophy | 35 |
| (b) | Funding strategy, including policies on diversification in the sources and tenor of funding and whether the funding strategy is centralised or decentralised. | Liquidity and funding risk | | |
| (c) | Liquidity risk mitigation techniques. | Liquidity and funding risk | | |
| (d) | An explanation of how stress testing is used. | Liquidity and funding risk | | |
| (e) | An outline of the bank's contingency funding plans. | Liquidity and funding risk | | |

## CRA – Banks must describe their risk management and policies for credit risk focusing in particular on:

| Description | | Key risk | Section in document | Page reference |
|---|---|---|---|---|
| (a) | How the business model translates into the components of the bank's credit risk profile. | Credit risk | 02 Risk management philosophy | 31 |
| (b) | Criteria and approach used for defining credit risk management policy and for setting credit risk limits. | Credit risk | | |
| (c) | Structure and organisation of the credit risk management and control function. | Credit risk | | |
| (d) | Relationships between the credit risk management, risk control, compliance and internal audit functions. | Credit risk | | |
| (e) | Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors. | Credit risk | | |

## CRB – Additional disclosure related to the credit quality of assets

| Description | | Key risk | Commentary or section in document | Page reference |
|---|---|---|---|---|
| (a) | The scope and definitions of 'past due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definition of 'past due' and 'default' for accounting and regulatory purposes. | Credit risk | 02 Risk management philosophy | 32 – 33 |
| (b) | The extent of past due exposures (more than 90 days) that are not considered to be impaired and the reasons for this. | | As per the reporting period, the bank does not have exposures that are past 90 days and not impaired . | n/a |
| (c) | Description of methods used for determining impairments. | | Discovery Bank is guided by the impairment/provisioning requirements as identified in the IFRS 9 Financial Instruments ("IFRS 9", or "the standard") issued by the International Accounting Standards Board (IASB), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9. | n/a |
| (d) | The bank's own definition of a restructured exposure and a breakdown of restructured exposures between impaired and not impaired exposures | | The bank complies with Directive 7/2015 as issued by the SARB and have done some COVID-19 restructures under Directive 3 of 2020. | |
| (e) | Breakdown of exposures by geographical areas, industry and residual maturity. | | Discovery Bank only has revolving assets and hence no residual maturity is shown in the document. Rest of the information can be found in the risk management and key risks sections. | 34 |
| (f) | Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry. | | 02 Risk management philosophy | 34 |
| (g) | Ageing analysis of accounting past due exposures. | | 02 Risk management philosophy | 34 |

## CRC – Qualitative disclosure requirements related to credit risk mitigation techniques

| | Description | Commentary or section in document | Page reference |
|---|---|---|---|
| (a) | Core features of policies and processes for (and an indication of the extent to which the bank makes use of) on- and off-balance sheet netting | Discovery Bank is not making use of any netting agreements. | n/a |
| (b) | Core features of policies and processes for collateral. | Discovery Bank's focus is on unsecured lending, and therefore collateral is not applicable for this submission. | n/a |
| (c) | Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers). | 02 Risk management philosophy | 34 |

## CRD – Qualitative disclosures on the banks' use of external credit ratings under standardised approach for credit risk

| Description | | Commentary | Page reference |
|---|---|---|---|
| (a) | Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period. | In assessing the creditworthiness of legal entities, Discovery Bank considers the letter grade ratings as provided by recognised external rating agencies for sovereigns, parastatals, banks and corporates. In respect of sovereigns, parastatals, banks and corporates, the bank utilises the letter grade ratings as issued by eligible External Credit Assessment Institutions (ECAI). This includes Moody's, Fitch, Standard and Poor and Global Credit Ratings. The rating is determined on the international scale or the national scale rating mapped to the international scale. In respect of multiple issuer assessments, the higher of the two risk weights (for two ratings) or the higher of the lower two risk weights (for three or more ratings) will apply. Any new banks and counterparties will be reviewed based on these criteria and reviewed by the ALCO. | n/a |
| (b) | The asset classes for which each ECAI or ECA is used. | Under the International Coverage of Capital Measurement and Capital Standards defined by the Basel Committee for Banking Supervision (BCBS) and incorporated under the Regulations related to South African Banks, each exposure is mapped to an asset class as per asset classification rules, which vary for different asset classes. The bank adopted the asset classification rules defined by the SARB for credit risk measurement under the standardised approach.<br><br>Asset classification is used to determine the regulatory treatment of an asset and to assign risk weights. There are two levels of classification:<br>• Counterparty level, for example, Retail, Bank, Corporate or Sovereign.<br>• Product level, for example, Retail Revolving Credit Card or Retail Other.<br><br>Assets in the banking book are split between the retail book and wholesale book based on the turnover amount. The wholesale book consists of five main assets, namely Sovereign, Public Sector Entities, Banks, Securities Firms and Corporate Entities. | n/a |
| (c) | A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book. | Discovery Bank is a retail focused bank and currently does not trade in financial instruments that might give rise to issuer risk. | n/a |
| (d) | The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply). | Discovery Bank is using the standard asset class mapping table as prescribed by the SARB. | n/a |

## CCRA – Qualitative disclosures related to counterparty credit risk including:

| | Description | Commentary | Page reference |
|---|---|---|---|
| (a) | Risk management objectives and policies related to counterparty credit risk. | Credit risk arises in the event an obligor is unable or unwilling to pay interest on the advances granted to them. Counterparty credit risk arises in the event the obligor is unable or unwilling to repay the capital granted to them. Counterparty credit risk forms part of credit risk and speaks to derivative contracts agreed between the parties as a mean of transferring credit risk to a third party. Discovery Bank has limited risk related to counterparty credit risk as the bank doesn't trade in instruments and all derivatives are managed by Discovery Group. | n/a |
| (b) | The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures. | Not applicable to Discovery Bank | n/a |
| (c) | Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs. | As a unsecured retail focused bank, risk is managed through our lending strategy (targeting low credit risk clients) and not mitigated through collateral or guarantees | n/a |
| (d) | Policies with respect to wrong-way risk exposures. | Currently wrong-way risk is not considered due to the materiality of the counterparty credit risk exposure. | n/a |
| (e) | The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade. | Not applicable to Discovery Bank | n/a |

## MRA – Qualitative disclosure requirements related to market risk

| Description | | Key risk | Section in document | Page reference |
|---|---|---|---|---|
| *Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):* | | | | |
| (a) | Strategies and processes of the bank. This must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies and processes for monitoring the continuing effectiveness of hedges. | Market risk | 02 Risk management philosophy | 37 – 38 |
| (b) | Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management. | Market risk | 02 Risk management philosophy | 37 – 38 |
| (c) | Scope and nature of risk reporting or measurement systems. | Market risk | 02 Risk management philosophy | 23 and 37 – 38 |

## Operational risk

| | Description | Commentary | Page reference |
|---|---|---|---|
| (a) | In addition to the general qualitative disclosure requirement (paragraph 824), this is the approach(es) for operational risk capital assessment for which the bank qualifies (Capital Management and allocation) BA 400 . | Discovery Bank adopted the Basic Indicator Approach (BIA). Under this approach, the Bank will hold capital for operational risk equal to a fixed percentage. | n/a |
| (b) | Description of the advanced measurement approaches for operational risk (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used. | Not disclosed as the bank follows the standardised approach for operational risk. | n/a |
| (c) | For banks using AMA, a description of the use of insurance for the purpose of mitigating operational risk. | | |

## IRRBBA – IRRBB risk management objectives and policies

| Description | | Key risk | Section in document | Page reference |
|---|---|---|---|---|
| (a) | A description of how the bank defines IRRBB for purposes of risk control and measurement. | Interest rate risk in the banking book | 02 Risk management philosophy | 37 – 38 |
| (b) | A description of the bank's overall IRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and net interest income (NII) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions. | Interest rate risk in the banking book | 02 Risk management philosophy | |
| (c) | The periodicity of the calculation of the bank's IRRBB measures and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB. | Interest rate risk in the banking book | 02 Risk management philosophy | |
| (d) | A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings. | Interest rate risk in the banking book | 02 Risk management philosophy | |
| (e) | Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (i.e. the EVE metric generated by the bank for purposes other than disclosure, for example, for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Template IRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (for example, historical data, published research, management judgment and analysis). | Interest rate risk in the banking book | 02 Risk management philosophy | |
| (f) | A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment. | Interest rate risk in the banking book | 02 Risk management philosophy | |

# Qualitative tables / CONTINUED

## IRRBBA – IRRBB risk management objectives and policies / continued

| Description | Key risk | Section in document | Page reference |
|---|---|---|---|
| (g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B, which includes:<br>• For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.<br>• How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behaviour).<br>• The methodology used to estimate the prepayment rates of customer loans or the early withdrawal rates for time deposits, and other significant assumptions.<br>• Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material.<br>• Any methods of aggregation across currencies and any significant interest rate correlations between different currencies. | Interest rate risk in the banking book | 02 Risk management philosophy | 37 –38 |
| (h) (Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures. | Interest rate risk in the banking book | 02 Risk management philosophy | |
| **Quantitative disclosures** | | 02 Risk management philosophy | |
| 1 Average repricing maturity assigned to NMDs.<br>2 Longest repricing maturity assigned to NMDs. | | Discovery Bank has the ability to change interest rates on NMDs the next day. Typically adjustments are made in line with MPC repo rate adjustments. Subsequently, the average and longest repricing maturity remains overnight. | |

## Remuneration

| Description | Section in document | Page reference |
|---|---|---|
| Information relating to the bodies that oversee remuneration. Disclosures should include:<br>• Name, composition and mandate of the main body overseeing remuneration.<br>• External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.<br>• A description of the scope of the bank's remuneration policy (for example, by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.<br>• A description of the types of employees considered as material risk-takers and as senior managers. | Material risk-takers are employees whose professional actions have a material impact on the Bank's overall risk exposure. Discovery Bank defines material risk-takers as the members of the Discovery Bank Executive Management team that are also Executive Directors of the Bank.<br><br>Discovery Bank defines senior management as the CEO's direct reports who are members of the Executive committee, excluding the Executive Directors of the Bank. | n/a |
| Information relating to the design and structure of remuneration processes. Disclosures should include:<br>• An overview of the key features and objectives of remuneration policy<br>• Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.<br>• A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee. | 03 Remuneration | 43 – 49 |
| Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration. | | 43 – 49 |
| Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:<br>• An overview of main performance metrics for the bank, top-level business lines and individuals.<br>• A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.<br>• A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics. | | 43 – 49 |

## Remuneration / continued

| Description | Section in document | Page reference |
|---|---|---|
| Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:<br>• A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.<br>• A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements. | | 43 – 49 |
| Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include:<br>• An overview of the forms of variable remuneration offered (for example, cash, shares and share-linked instruments and other forms).<br>• A discussion of the use of the different forms of variable remuneration, and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance. | | 43 – 49 |

# 06
# Abbreviations

# Abbreviations

| ABBREVIATION | DEFINITION |
|---|---|
| A-IRBA | Advanced Internal Ratings based Approach |
| ASF | Available Stable Funding |
| AT1 | Additional Tier 1 |
| CCF | Credit Conversion Factor |
| CCPs | Central Counterparties |
| CCR | Counterparty Credit Risk |
| CEM | Credit Exposure Method |
| CET1 | Common Equity Tier 1 |
| CFT | Countering Financing of Terrorism |
| CRM | Credit Risk Mitigation |
| CSR | Corporate Social Responsibility |
| CVA | Credit Valuation adjustment |
| DAC | Directors Affairs Committee |
| D-SIB | Domestic Systemically Important Banks |
| ECL | Expected Credit Loss |
| ERC | External Remuneration Committee |
| ERMF | Enterprise Risk Management Framework |
| ESG | Environmental, social and governance |
| EVE | Expected Value of Equity |
| F-IRB | Foundation internal ratings-based approach |
| FX | Foreign Exchange |
| G-SIB | Global Systemically Important Banks |
| HQLA | High-Quality Liquid Assets |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IRB | Internal Ratings Based |
| IRC | Internal Remuneration Committee |
| LCR | Liquidity Coverage Ratio |
| LTIPs | Long-term Incentive Plans |

| ABBREVIATION | DEFINITION |
|---|---|
| MDB | Multilateral development banks |
| MRM | Model Risk Management |
| NII | Net Interest Income |
| NIR | Non Interest Revenue |
| NSFR | Net stable funding ratio |
| ORSA | Own Risk and Solvency Assessment |
| PA | Prudential Authority of South Africa |
| PSE | Public Sector entities |
| RACM | Risk and Control Matrix |
| R&D | Research and Development |
| RP | Recovery Plan |
| RSF | Required Stable Funding |
| RWA | Risk-Weighted Assets |
| SA | Standardised Approach |
| SA – CCR | Standardised Approach for Counterparty Credit Risk |
| SAMOS | South African Multiple Option Settlement |
| SARB | South African Reserve Bank |
| SEC-ERBA | Securitisation external ratings-based approach |
| SEC-IRBA | Securitisation internal ratings-based approach |
| STIs | Short-term Incentive Schemes |
| T1 | Tier 1 |
| T2 | Tier 2 |
| TC | Total Capital |
| TLAC | Total loss absorbing capacity |
| VAR | Value at Risk |
| VAS | Value added services |
| VISA | Visa International Service Association |

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